

EUROPEAN NEWS

EC ministers edge nearer to air liberalisation accord

By Tim Dickinson in Luxembourg

EUROPEAN Community Transport Ministers were last night edging towards agreement on measures which should breathe more competition into the airline industry.

Several key stumbling blocks in the complex package were sorted out in early talks yesterday. But a problem about Spanish access to London's Heathrow airport and the French Government's demands that it be allowed to continue subsidising certain regional routes were getting in the way

of an overall deal.

An Irish government spokesman said the negotiations were finely balanced. He said Spain, supported by the other Mediterranean countries, could yet block the accord because of a dispute caused by the shortage of slots available to Spanish airlines at Heathrow.

The so-called second stage of air transport liberalisation is not likely to bring substantially cheaper fares to European travellers, but it is seen by Brussels as a vital prepara-

tion for the fuller freedoms of the single market from January 1 1993, when fare restrictions and the cosy bilateral capacity and revenue-sharing agreements among EC governments will disappear.

In the meantime, the idea is to set fare "zones" where member states' approval will be granted automatically, as well as to eliminate in three intermediate steps the capacity-sharing system.

There is concern in the liberal camp that big airlines

could use the next two to three years to gobble up their smaller competitors or, worse still, drive them to the wall.

That is why there was some satisfaction last night when broad agreement was reached on new EC powers to curb predatory pricing and other anti-competitive practices.

Another issue which was resolved was Denmark's concern over the treatment of its Scandinavian neighbours.

Its reservations were lifted when other member states

decided that talks on an air transport agreement with Norway and Sweden should begin immediately, before negotiations with other countries of the European Free Trade Association.

In a separate development yesterday, Mr Wilhelm Knittel, junior West German Transport Minister, said Bonn was determined to go ahead with plans to impose a tax on all lorries using its roads after 1 July.

His comments appear to remove any lingering hope of a

compromise with the European Commission, which says it will take legal action in the European Court of Justice.

Brussels says the tax - which will vary from DM2,000 to DM10,000 is discriminatory and against the principles of free trade.

The Commission yesterday decided to initiate proceedings against Belgium for infringement of Community rules on the limitation of noise from subsonic aircraft.

EC aid to Moscow should be considered carefully says Hurd

By David Buchan in Luxembourg

THE EC summit next week will tackle the increasingly pressing question of aid to the Soviet Union, Mr Douglas Hurd, the UK Foreign Secretary, predicted yesterday.

He said, after a meeting of EC foreign ministers had discussed possible assistance for Moscow at their regular monthly meeting, that "it is urgent that we begin to consider the Soviet economic position, but also that we consider it very carefully. We are dealing with a country with abundant resources, but suffering from a unique form of misgovernment."

Therefore, the west and the EC should think very carefully before putting its money into the Soviet Union, he said.

Next month's Houston summit meeting of leaders of the seven major industrialised countries and the European Commission will discuss aid to Moscow. In advance of that meeting, Mr Jacques Delors,

the commission president, yesterday urged the EC to ready its own position and evidently found willing listeners. The discussion was, however, described as preliminary and without figures.

Many Europeans, especially the Germans and those from some smaller states, are generally still smarting from the pressure exerted by the US to make sure that the Soviet Union would not be able to borrow from the new European Bank for Reconstruction and Development (EBRD) more than the membership capital it puts in.

The EBRD, which has yet to start lending, is so far the only institution open to Moscow. Mr Roland Dumas, the French Foreign Minister, mentioned the possibility of the European Investment Bank, an EC institution which is already lending to eastern Europe, helping the EBRD get started by lending it staff.

Communists clinch victory in Bulgarian elections

BULGARIA'S former communists, reshaped to conform with eastern Europe's reforming trend, clinched victory yesterday, by achieving a parliamentary majority in the country's first free poll in more than four decades, Reuter reports from Sofia.

"It is a vote of confidence," Mr Andrei Lukanov, the Prime Minister (pictured right, with supporters), declared, amid jubilation in the streets of Sofia among supporters of his Bulgarian Socialist Party (BSP), the former communist party.

The elections, which took place over two rounds on June 10 and 17, made Bulgaria the only country in eastern Europe to have returned its rulers to power in free elections.

"The party has regained con-

fidence but it has a long way to go to regain the moral authority it had years ago," Mr Lukanov said.

His party won 211 seats in the 400-seat National Assembly. The opposition Union of Democratic Forces (UDF), an alliance of 16 groups which had only seven months to prepare its election campaign, won 132 seats.

Despite reporting some electoral irregularities in the election and a number of cases of overt intimidation, foreign observers have generally judged the polls to be fair.

The UDF has alleged fraud in some constituencies but it has accepted the outcome and resigned itself to a role as the country's largest opposition bloc.



Serbia rules out elections this year

By William Dufforce in Geneva

ELECTIONS in the Yugoslav republic of Serbia will be held only after the promulgation of a new constitution, Mr Aleksandar Prica, Secretary for Foreign Relations in the Serbian government, said yesterday.

This means that elections might be held in 1991 but not this year as demanded by opposition parties, he said.

The new constitution would provide for a plurality of parties and allow minorities full ethnic and cultural rights including education in their own languages, but it would fully preserve Serbia's territorial integrity.

The autonomous provinces of Kosovo and Vojvodina, as organised now, presented obstacles to Serbian integrity, he said.

The one-party Communist government of Serbia is under pressure from the opposition to follow swiftly the examples of Croatia and Slovenia, which have already held elections in which the Communists have lost power.

It is also under pressure from 1.4m ethnic Albanians in Kosovo who are demanding independence.

Under the timetable Mr Prica outlined, a new party with a new programme would be formed at a party congress on July 12.

A constitution, providing for a multi-party political system, would then be promulgated by the existing three-chamber Serbian parliament before the end of the year.

Romania's Government tries to repair image abroad

By Judy Dempsey in Bucharest

THE Romanian authorities are desperately trying to repair their image after the violence which swept Bucharest last week, but intellectuals and diplomats say the moves will not prevent intimidation becoming a feature of the country's political life.

After days of criticism from the international community, and growing fears that economic and humanitarian assistance crucial to rebuilding the country's shattered economy will be held back, the Government is embarking on an exercise in damage limitation.

The message directed at western governments, opposi-

tion parties and intellectuals is that President Ion Iliescu and the National Salvation Front-dominated Government remains committed to building a democratic society.

The Government's image has been battered by its capacity for lying and by its unashamed public support for mob rule. Its first attempt to restore its image came on Sunday night, when Romanian television finally broadcast several interviews critical of the violence meted out to innocent people by the miners.

It also showed crowds of anti-government demonstrators who that evening had

regrouped on University Square, where the first wave of violence began last week.

However, allowing the pictures of the demonstrations to be shown is likely to enrage the miners, the workers and the security forces, who loathe the students and intellectuals.

"This Government has no idea about crisis management or about how to deal with the media," said a western diplomat. "One day it clamps down, the next day it opens up. The inconsistency breeds even more instability and distrust."

To reassure the opposition of a future role in the country, the Government has promised

to compensate the political parties for the destruction caused by the miners. It has also promised to set up an investigation into the violence.

The atmosphere of intimidation in the capital remained yesterday, with plainclothes security men confident enough to rough up several correspondents trying to pass through a phalanx of police and army near the Parliament.

Mr Iliescu's critics say that if the president and the Government can not exercise moral authority instead of naked force, then the country will lurch from crisis to violence. They add that this will make

stability impossible to achieve.

The one tool at the Government's disposal is economic aid from the west. Without such aid, discontent is likely to rise, and xenophobia could intensify in a country still ambivalent about the west.

The collusion of these factors could play into the hands of disgruntled communists or nationalists, who remain a powerful and potent force in the country's consciousness.

Some of Mr Iliescu's advisers believe the Government must start providing real proof to the west that it is committed to building the foundations for a democracy.

Accountant ends Soviet monopoly

By David Waller

ARTHUR ANDERSEN has become the first international accounting and consultancy firm to penetrate the potentially vast auditing market in the Soviet Union.

Although all the international accountancy firms have a presence in the Soviet Union, they have been limited to doing general advisory work.

Under the terms of a formal registration granted last week, Arthur Andersen will be allowed to audit both joint ventures between Soviet and western companies as well as Soviet state enterprises and co-operatives.

The vehicle for the firm's thrust into the Soviet Union is a new joint venture between the firm's West German partnership and Promstroybank, the USSR's biggest bank, and NPO Dinamo, a Soviet industrial and engineering company.

Portugal raises rates of interest

By Patrick Blum in Lisbon

PORTUGAL yesterday raised its key interest rates by 1 and 1.25 percentage points, in response to a further surge in inflation last month. Prices rose by 1.1 per cent in May, bringing the average annual rate to 12.8 per cent and the year-on-year rate to 14 per cent.

This underlines the Government's problems in trying to curb inflation. The Finance Ministry has an inflation target of 9.5-10.5 per cent for 1990, but this looks unlikely to be achieved.

The inflation rate, at over twice the EC average, makes early entry of the escudo into the EMS harder, despite Lisbon's hopes. Interest rates on term deposits of over 180 days rose from 13 to 14 per cent. Home-loan interest rates rose from 13.25 to 14.50 per cent.

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AMERICAN NEWS

Central American accord falls short of full integration

By Tim Coone in Guatemala City

CENTRAL AMERICA'S presidents have launched much fanfare. Plan of Economic Action following their weekend summit, which for the first time included Panama.

The plan aims to boost intra-regional trade, exports, foreign investment and tourism and to co-ordinate macro-economic policies with a view to the eventual formation of an "Economic Community of the Central American Isthmus."

President Vinicio Cerezo of Guatemala, who hosted the meeting, described the agreement as "transcendental and historic." He said the region's economic integration was the key to its development and that "a greater and more just distribution of wealth is the only way to break the circle of violence."

None the less, the summit fell short of taking more substantial measures to harmonise the region's diverse set of customs tariffs, exchange rates and monetary and fiscal policies. These remain as obstacles to freer trade and foreign investment in the isthmus.

Key points of the plan are: to co-ordinate infrastructure projects in the region which affect land and maritime transport and electricity generation and transmission; to co-ordinate foreign debt negotiations; to promote jointly the region's exports and its potential for tourism and foreign

investment through each country's embassies overseas;

to request an expansion of the Caribbean Basin Initiative to promote exports to the US, and to negotiate a preferential trade agreement with the EC similar to the Lomé Convention;

to simplify customs and migratory paperwork to promote the movement of goods and people in Central America;

to reduce non-tariff barriers to regional trade and to reduce customs tariffs.

Efforts to establish a Central American Common Market in the early 1960s had collapsed by the following decade, as trade imbalances led to political tension and even to the outbreak of war in 1969 between El Salvador and Honduras. Regional trade stagnated further in the 1980s as foreign debt problems and political violence took their toll.

According to Mr Olivier Castro, the executive secretary of the Central American Monetary Council, accumulated bilateral debts among the region's five countries now stood at \$700m (\$414.2m). This is mostly owed by Nicaragua and Honduras to the other three countries.

In addition to the economic accords, firm pledges were again made by the presidents committing their governments to respect of human rights, freedom of expression and to improvements in their systems of political representation.

Thrifths scandal casts a shadow over Washington

Politicians outside the capital stand to gain most from the S&L débâcle, writes Peter Riddell

The savings and loan crisis is "the biggest sleeping giant on the political landscape," according to Mr Ed Rollins, the head of the National Republican Congressional Committee. In the last couple of weeks there have been signs that the giant is stirring.

Mr Nicholas Brady, the US Treasury Secretary, and other senior officials responsible for the rescue — the largest in US history — faced a barrage of bipartisan complaints when they appeared recently before the House Banking Committee.

There were complaints not only about slowness in processing fraud but also of mismanagement of the rescue. Separately, there have been calls for an independent investigation of the affair.

It has been hard to apportion the blame. Democratic as much as Republican Congressmen and the Reagan Administration were responsible for the key decisions of the early 1980s, such as the increase in the upper limit of Federal insured deposits to \$100,000 and the deregulation of their activities, which contributed to the later speculative boom and bust.

Prominent Democrats have so far been the main political victims. Mr Ferdinand St Germain, who had been chairman of the House Banking Committee, was one of the 2 per cent of House members defeated in 1988, following questions about gifts from industry lobbyists. Mr Jim Wright, the Democratic House Speaker, and Mr Tony Coelho, the House Major-

ity leader, were forced to resign a year ago in part because of controversy over their links with S&L executives and intervention with regulators. Both received contributions from employees of the failed Vernon Savings and Loan, whose former owner, Mr Don Dixon, was last week indicted on 38 charges of conspiracy and misapplication of funds.

The most well-known S&L scandal involves the Keating Five or the Lincoln Brigade — the five senators currently being investigated by the Senate Ethics Committee about whether they improperly put pressure on Federal regulators who were examining the now failed Lincoln Savings and Loan run by Mr Charles Keating. He had given or raised

\$1.3m (\$760,000) for the five — four of whom are Democrats, including Senator Don Riegle, chairman of the Senate Banking Committee.

The Bush Administration came into office promising to clear up the mess, but is facing growing criticism as the cost of the rescue mounts — up from \$75m to \$132m according to the Treasury (its present value targets, a potentially powerful populist issue).

But the Administration is in a no-win position. It has an unlimited liability as a result of the Federal guarantee to depositors while costs are increasing as a result of falling property prices and higher than expected interest rates. Together these factors make it more difficult to dispose of col-



Mario Cuomo: voted against rescue legislation

New York business warned over threat of telecoms failure

NEW YORK, with more than \$1,500bn (\$287bn) of financial transactions flowing through its telephone lines each day, must take steps to ensure its telecommunications system can better withstand disasters, a city lobby group has concluded, writes Roderick Gram in New York.

Mr Ronald Sheip, president of the New York City Partnership, an association of business and civic leaders, said: "We cannot afford to gamble

with either the system's ability to resist disasters or its status as a technological leader."

Although the city's telecommunications equipment might be better than that of other big financial centres, such as London and Tokyo, the hazards were greater in New York, said Mr Michael Tyler, head of the information technology practice of Booz Allen & Hamilton. The consulting firm's report for the partnership on

the city's phone system was released yesterday.

"I can't put a probability on a disaster occurring but it is certainly a real risk," Mr Tyler added.

Banks, brokerage houses and other companies dependent on communications over the phone should be acutely aware of the dangers. A fire destroyed a central office switch in suburban Chicago in 1988, knocking out 1m lines. Local service took up to

two months to restore. However, the Booz Allen study found a number of big New York financial institutions had no telecommunication back-up.

"If we were stockholders, we would be very concerned," Mr Tyler said.

The partnership urged companies in the city's business districts to have two separate phone feeds into their buildings and routings to two central office switches. Regulatory changes would enable phone companies to pro-

vide such back-up more efficiently and cheaply.

The group also called for reductions in the cost of the city's telecommunications. Local calls, for example, can be as much as 50 per cent higher than in neighbouring New Jersey.

Regulatory changes would also encourage investment in new products and services to help the city retain its technological competitiveness, the group said.

Mexico wins loan to fight pollution

By Richard Johns in Mexico City

JAPAN has agreed to make an \$215m (\$482m) loan, to help Mexico combat its pollution problems, the Mexican press reported yesterday.

The announcement was the main outcome of President Carlos Salinas de Gortari's visit to Tokyo as part of an attempt to consolidate relations with the Pacific Basin countries.

Of the total aid commitment, \$215m will be devoted to cutting pollution by Petroleros Mexicanos (Pemex), the cash-starved state monopoly. Terms of the loan were not announced.

Vehicle pollution is reckoned to account for as much as 80 per cent of the pollution in the Valley of Mexico, with industry accounting for the rest.

Mexican pollution is seen as one of the world's biggest environmental problems, after the devastation of the world's rain forests. However, one British specialist visiting here recently said some east European industrial zones were more badly polluted than Mexico.

Japanese officials said aid from Tokyo for the clean-up would have been available much earlier if the Mexican Government had drawn up plausible specific proposals when Mr Toshiki Kaifu, Japan's Prime Minister, visited Mexico City last year.

Mandela praise for Mulroney

By Bernard Simon in Toronto

Mr Nelson Mandela, deputy president of the African National Congress, yesterday praised Mr Brian Mulroney, the Canadian Prime Minister, for his country's unrelenting opposition to apartheid at the UN and in the Commonwealth. Speaking to the House of Commons in Ottawa at the start of the North American segment of his sprawling overseas trip, Mr Mandela asked Canada to "stay the course with us" while black and white South Africans negotiated a new constitution.

In particular, Mr Mandela made a plea for financial assistance for the ANC as it enters the mainstream of South African domestic politics. He asked MPs to urge their governments to contribute to the anti-apartheid movement.

Mr Mulroney has made South Africa a key part of his Conservative Government's foreign policy, much to the irritation of Mrs Margaret Thatcher of Britain, with whom he has clashed at several Commonwealth meetings. Canada has imposed a wide range of sanctions against Pretoria, but has stopped short of breaking all trade links or cutting off diplomatic relations.

The Canadian Government has declined to provide financial support directly to the ANC.

Amnesty lists police atrocities in Brazil

By Christina Lamb in Rio de Janeiro

BRAZILIAN authorities have been accused of turning a blind eye to widespread murder and torture by police officials, in a damning report by the human rights organisation Amnesty International.

The report, published in Brazil yesterday, called on the Government of President Fernando Collor de Mello to stop what it called "rampant civil and military police violations" and end the "crisis in Brazil's criminal justice system."

Amnesty officials said that police officers routinely tortured and killed suspects in custody and ran death squads, often to settle personal feuds. "Knowing such crimes are rarely punished," the report claimed torture was so common that highly-placed officials admitted it was one of the main techniques the police used to "solve" crime.

It cited examples of prisoners being suspended by their wrists and ankles from iron bars, beaten and given electric shocks while jets of water were forced up their nostrils.

This is the first time a report on a particular country has been released in the country concerned, rather than the organisation's headquarters in London. The move will test the commitment of the new government to protecting human rights.

Brazil returned to civilian rule in 1985 after 21 years of army rule, but despite the introduction in 1988 of a new

BRAZILIAN civil servants were kept waiting yesterday for the expected announcement of up to 360,000 job cuts promised by the Government of President Fernando Collor, writes Christina Lamb.

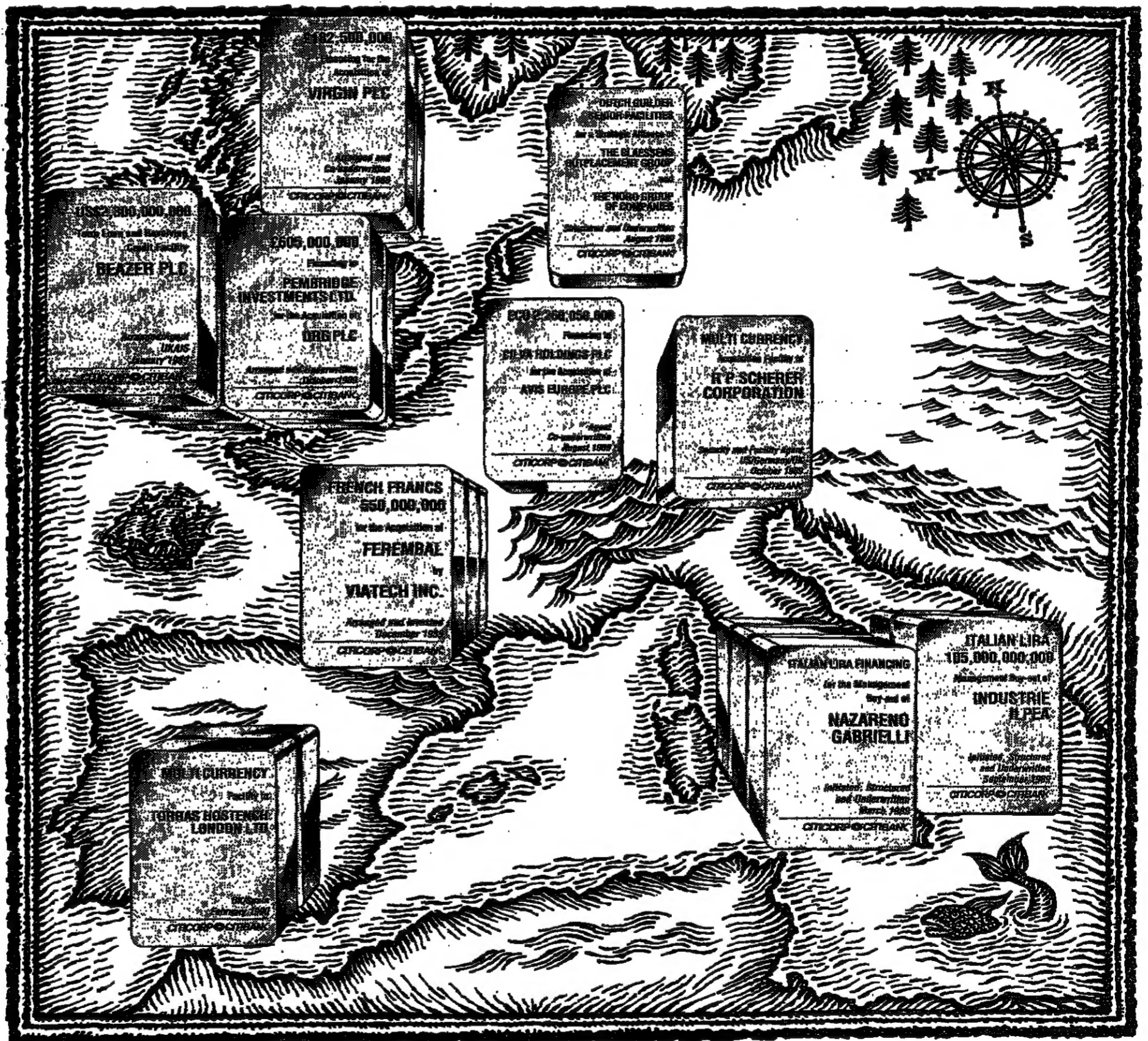
Mr João Santana, the administrative secretary, who is responsible for compiling the list of cuts, issued no statement. A representative said he was still waiting for details from some of the 12 ministers. "We are still expecting to announce 360,000 dismissals, but so far we are only up to 79,000," she said.

constitution which banned torture and guaranteed human rights, the Amnesty team found these were not being implemented.

The report covers the period 1985-90, before President Collor's Government came to power.

"Brazilian citizens, especially the young and the poor, are increasingly victims of police brutality," it said, adding "generally the authorities fail to take action."

According to Amnesty, confessions extracted under torture have been frequently used as evidence. "Brazilian state governments are in effect condoning this violence and encouraging police to act as if they are beyond the law by not clamping down on the killers."



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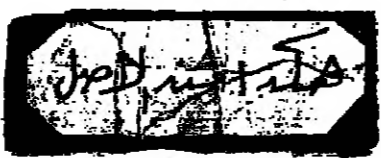
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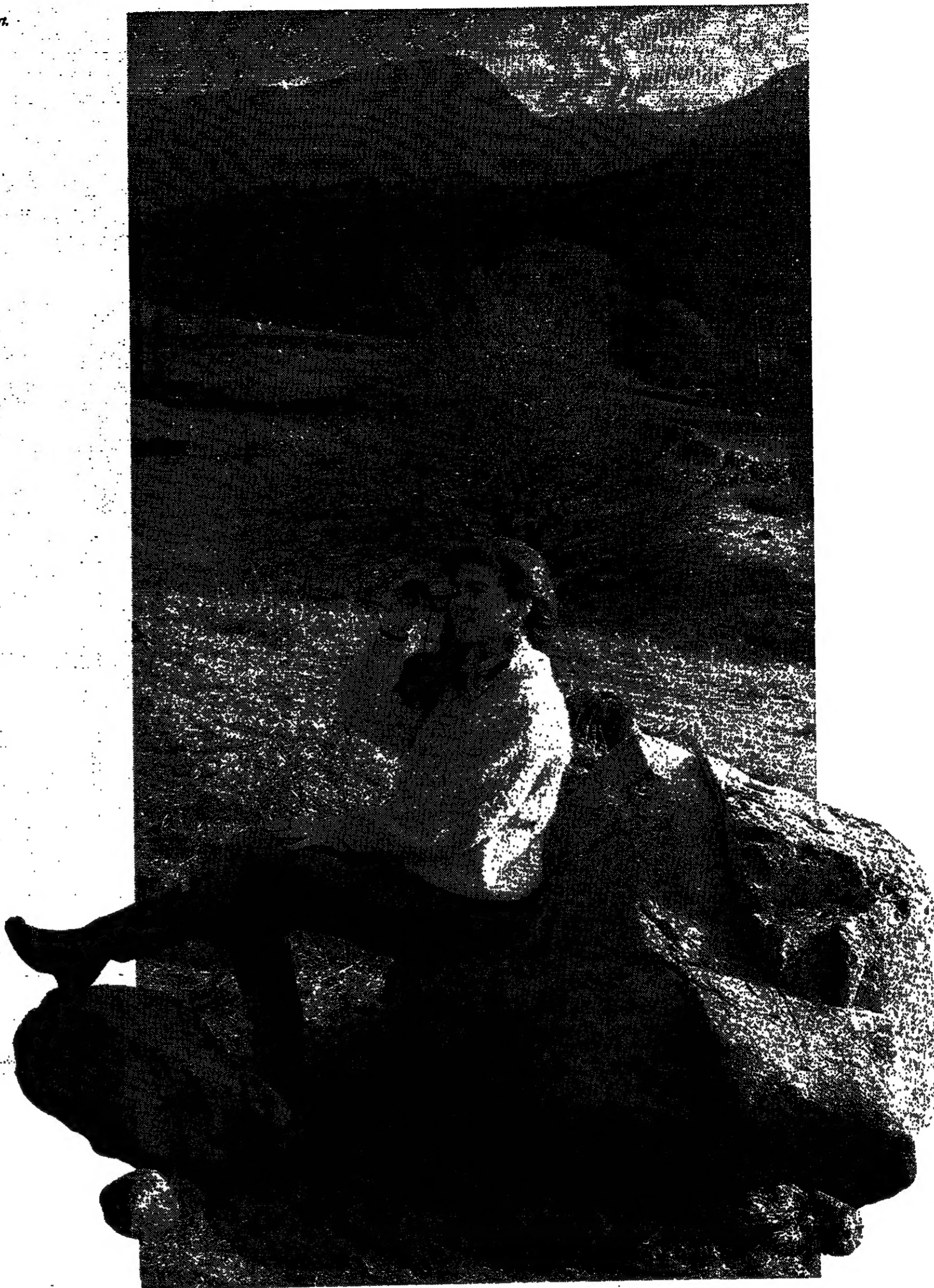
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As much as comfort, she and her fellow passengers also appreciate punctuality: trains that run on time and don't get stuck somewhere along the line. Which, as Joan will tell you, hasn't always been the case. Europe's largest urban population is served by the world's oldest metro system, and it sometimes shows.

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Preference will be given to proposals with a definite commitment to future investment plans for the next five years. A prospective investor may make offers for the purchase of tranches of shares representing varying degrees of ownership. Proposals should be submitted to Secretary, Ministry of Finance, Galle Face Secretariat, Colombo 1, Sri Lanka, under confidential cover together with the following documents:

1. Company Profile.
2. Audited Financial Statements for the last two years.
3. A Banker's Reference to reach him not later than 29th June, 1990. The left hand corner of the envelope should be marked "Offer for Dankotwa Porcelain Shares". This offer is open till 29th June 1990.

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Proposals should be submitted in writing to the Secretary, Ministry of Finance, to reach him on or before Friday, 29th June, 1990.

Please note that this invitation supersedes the previous Notice inviting offers.
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INTERNATIONAL NEWS

Sparkle on Indian diamond market dims

Gita Piramel reports on rough times, falling demand and hopes in a maturing market

"When the Diamond Trading Company (DTC) sneezes, Indian diamond cutters catch cold," says Mr Kaushik Mehta, chairman of the Gem and Jewellery Export Promotion Council, the premier organisation of the Indian diamond exporters.

In the past few months, the London-based DTC, the marketing division of South Africa's De Beers, has been sneezing a lot. Reduced demand for high fashion jewellery from the US and Japan, and higher prices for rough stones are two major reasons for the DTC's sudden paroxysm.

Most affected are the small Indian diamond cutting and polishing units in the towns of Surat, Navsari and Palanpur in the western state of Gujarat. According to the council, nearly 500 small units, many of them located in Surat, have been forced to close.

Curiously, despite the downturn in the trade, the handful of bigger Indian companies who dominate the Indian diamond export trade, are doing record business.

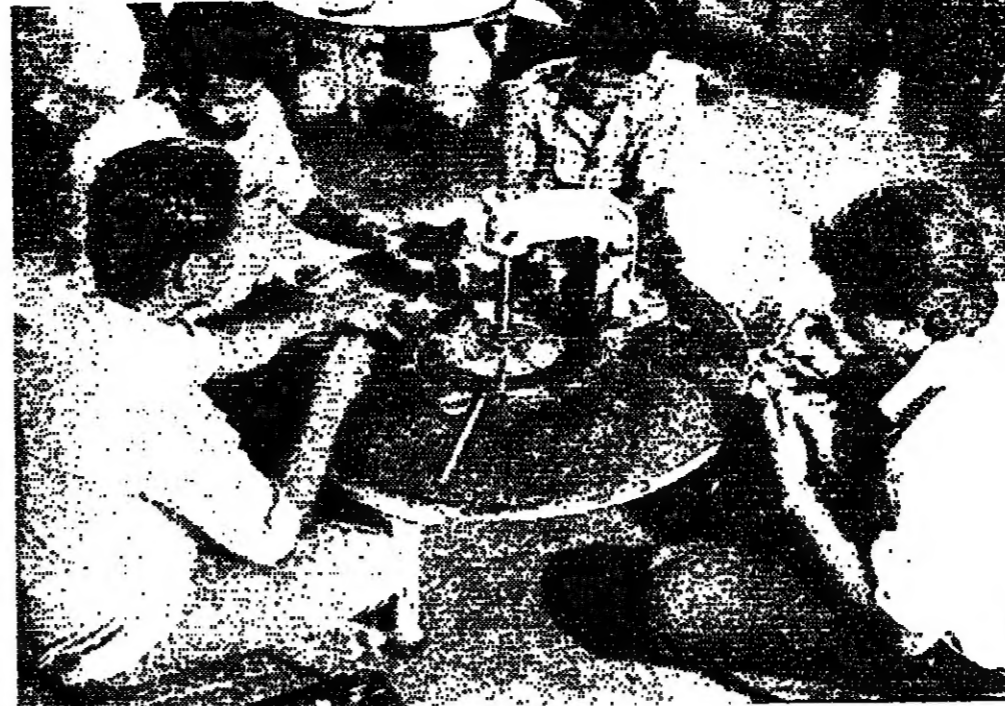
Even more curiously, some are diversifying into the international high fashion jewellery market just when it appears to be contracting.

The trend is partly a reaction to the recent decision by the Indian Government to abolish the Gold (Control) Act. The act's draconian rules had made it a major obstacle in the manufacture and sale of gold jewellery.

"We were always a little afraid of the act. For even a minor carelessness, we could lose our prestige and in the diamond business, reputation is everything," said Mr Bharat Shah, a partner of E Vijaykumar, India's largest diamond exporter.

Last year Mr Shah started manufacturing jewellery for the first time in a modest factory just outside Bombay. "My target was Rs20m (£1.6m), but in the first few months itself I exported jewellery worth Rs80m. Today I have orders in hand worth Rs20m. My problem now is shortage of space," said Mr Shah.

He welcomes the abolishing of the act "because now I can



Indian diamond workers use the traditional gantali

give out some of my orders to others on a job-work basis without fear."

Mr Shah's success - both in diamond polishing and in jewellery - is largely due to the fine craftsmanship of Indian artisans who can add sparkle to even the smallest and brownest of stones.

They can chisel industrial quality rough diamonds, which have been rejected by Israel and Belgium, into stones suitable for setting into popular fashion jewellery.

Moreover, in India, craftsmanship has a cheap price tag and wages are low. Skilled workers earn monthly incomes of Rs1,200-1,500.

Such salaries, which are marginally lower than industrial wages in larger Indian cities, are nowhere comparable to what similar artisans secure elsewhere in the world.

Over the past few years, Indian diamond cutters have been cutting and polishing diamonds in increasingly larger volumes. In 1988-89, out of 58m carats of diamonds which were cut and polished all over the world, 58m carats were pro-

cessed in India. The burgeoning demand for their goods is encouraging several of the larger firms to invest in imported laser machinery in order to boost production. Nevertheless, the majority of artisans continue to use the traditional primitive "gantali".

The importance of Indian diamond cutters in the world market is reflected in the number of Indian companies who have been appointed sight-holders by the DTC. Out of a total of 300 sight-holders who attend DTC's monthly auctions in London, only one is Japanese compared to 40 Indian companies.

Manufacturing used to be their cutting edge. Gradually the Indian firms added marketing, establishing a global network with offices in Antwerp, London, New York and Hong Kong.

One unique aspect of this network is that in practically every case, each office is manned by a family member. Buying roughs in London, an Indian sends them to his brother in Bombay who after

polishing them, forwards them to another brother in Antwerp, who in turn instructs cousins in New York and Hong Kong to sell them to jewellery manufacturers.

"This business demands personal attention and trust. Only your family can give both. I have remained a small diamond exporter because I do not have a brother whom I can send to live in Antwerp," laments Mr Mehta.

It is also a clannish network. Out of the 2,400 members of the Gem and Jewellery Export Promotion Council, less than 5 per cent do not belong to the Palanpur Jain community - a small religious sect which traces its roots to the dusty village of Palanpur located on the borders of Gujarat and Rajasthan.

Significantly, seven groups dominate the trade, controlling nearly 25 per cent of all Indian diamond exports. All seven are Palanpur Jains. With the expanding scales of operations, these groups are beginning to flex their muscle - to De Beers' growing dismay.

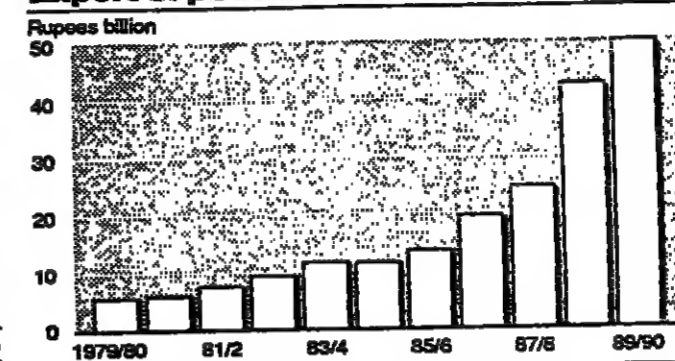
"Today, 62 per cent of the world's diamonds pass through Bombay. Naturally the DTC would not like to feel dependant on any one country. So it is trying to develop Thailand, China and Sri Lanka, where labour is almost as cheap as India, as new centres," said Mr Mehta.

At least one Indian Antwerp-based firm has already opened a cutting and polishing factory in Bangkok while two others are in the process of doing so.

As Mr Jayant Vora, a specialist in the insurance of diamond factories, says: "It is this attitude of finding a niche and burrowing into it which has created the Indian diamond export trade."

Their view is clearly that the clouds hanging over the market are temporary and do not dim the Indian diamond export trade's sparkle.

Export of polished diamonds from India



Lebanon's largest construction group closes

By Lara Marlowe
in West Beirut

OGER-LIBAN, Lebanon's largest construction company, closed for business yesterday, leaving the country apparently without a company to repair its war-ravaged roads, buildings and water pipes.

Company records show that Oger-Liban removed 306,000 tonnes of dirt and debris from Beirut after the 1982 invasion. But the company had not fulfilled any contracts for nearly three years and most of its equipment has been stolen by militia groups.

Oger-Liban was created by Mr Rafiq Hariri, the Lebanese-born Saudi multi-millionaire, after the 1982 Israeli invasion of Lebanon. Mr Hariri had taken over Oger Saudi Arabia and the French parent company in the early 1980s.

In 1983, Oger began rebuilding old downtown Beirut, the commercial centre of the city. But work there had to be abandoned because of renewed fighting in 1984.

Company officials stressed that the closure of Oger-Liban would not affect Mr Hariri's other businesses, which include the Mediterranean investors group (capitalised at over \$100m) and the Arab Universal Insurance Company.

Mr Hariri is also a major shareholder in the Saudi-Lebanese bank and Al-Saudi Bank Paris.

Throughout the 1980s, Oger was the main contractor in Lebanon for water and sewage pipes and road construction.

After the 1989 "war of liberation" and this year's inter-Christian war, Beirut is more than ever in need of reconstruction.

Mr Hariri provides 12,000 university scholarships to Lebanese students each year. While he is generally well-loved by Lebanon's Sunni Muslims, other groups in Lebanon allege that Mr Hariri is a conduit for Saudi money to strengthen the Lebanese Sunni community.

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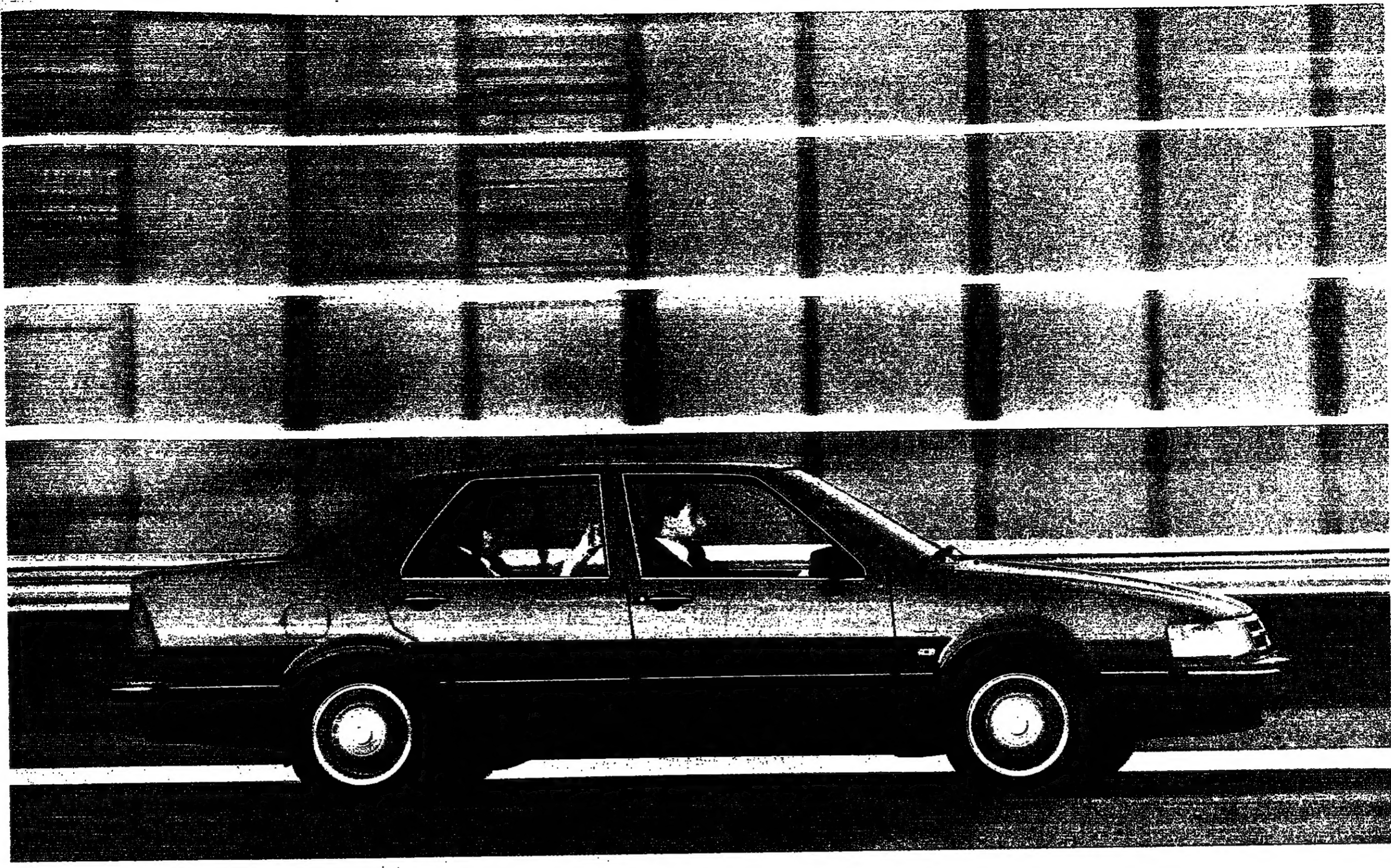
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Handwritten signature: J. J. J. J.

Handwritten text in a box: "John Smith" and "1988"

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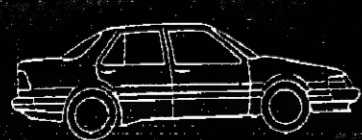
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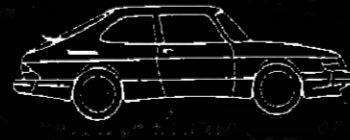
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UK NEWS

Serious doubts over financial targets

Budget forecasts threatened by public borrowing

By Rachel Johnson

OFFICIAL figures yesterday revealed Britain's public finances were heavily in the red in May, cutting the Treasury's room for manoeuvre at the height of its summer spending negotiations with the Cabinet.

Yesterday's news of a £1.7bn borrowing requirement in May is likely to force the Treasury to scale back its target of a £7bn public sector surplus in 1990-1991, forecast only three months ago in the Budget.

The Treasury blamed - for the second month running - the high cost of implementing the poll tax and the new business rate for the unexpectedly high borrowing requirement for May. There were no privatisation proceeds last month, while resistance to the poll tax, and administrative problems in its collection, were also making the inflow of revenues to local government much slower than in previous years.

Although revenues from tax, customs and excise, and

social security were all up on the month, the Government's total cash outlay in the first two months of the year was 23 per cent higher on the year, at £33.1bn.

Taking the first two months of the financial year together, the Government has borrowed £1.5bn, in stark contrast to this time last year when it managed a repayment of £700m.

This sharply higher rate of borrowing has weakened serious doubts in the City over the Government's ability to maintain its forecast surplus this year. In general, the City was expecting a much smaller borrowing requirement of about £750m in May - with some economists going so far as to predict that buoyant revenues would leave the Treasury with a small surplus.

● Britain's manufacturing output showed a modest recovery in the three months to end April, helping to keep the rise in unit labour costs below the growth of average earnings.

Renault wins part of £20m truck contract

By Kevin Done, Motor Industry Correspondent

RENAULT Truck Industries, the UK subsidiary of Renault Vehicules Industriels of France, and Reynolds Boughton have been awarded a £20m contract by the UK Ministry of Defence to supply 846 four wheel drive trucks.

The MoD also has an option to purchase an additional 160 vehicles, and both RTI and Reynolds Boughton are hopeful that the contract will lead to significant export orders.

The vehicle is based on the Renault 60 series, first launched in 1978. RTI will act as Reynolds Boughton's main sub-contractor.

Reynolds Boughton will supply its specially developed four wheel drive transmission package, axles and other componen-

try, and the trucks will be assembled by RTI at Dunstable.

Renault Truck Industries suffered a net loss of £7m last year compared with a loss of £1.5m in 1988.

● Rover is to launch a diesel version of its 800 executive car range using a 2.5 litre engine bought in from VM, the Italian diesel engine manufacturer.

The turbocharged, inter-cooled diesel 800 will be launched initially in France, Belgium, the Netherlands and Spain, and in Italy and in the UK in September. VM already supplies diesel engines for use in Rover's Range Rover vehicles, and a similar VM engine to the 800 version is used by the Fiat group.

Thatcher signals hard-line on controversial local taxation

By Ralph Atkins

THE PRIME Minister yesterday signalled her determination to take an increasingly hard-line stance in "capping" high spending local authorities and hinted at modifications to the controversial community charge, or poll tax, to help two-home owners.

The Government was being blamed for the community charge because it was allowing Labour council's to get away with excess spending, Mrs Margaret Thatcher said. It was the role of Parliament to stop "over-powering taxation on the citizen."

Her comments on BBC Radio Two's Jimmy Young show, came as a Cabinet committee

continues to review changes to the community charge system amid considerable dispute between ministers.

Mrs Thatcher is backing proposals for extending considerably powers to "charge-cap" those councils judged to be overspending. But the High Court's rejection last week of an appeal against capping this year by 19 local authorities would have given ammunition to ministers arguing that extra powers are not needed.

Government sources yesterday confirmed that legislation to amend the community charge system had not been ruled out for the next session of Parliament. They also said

that the wide-ranging review was still considering suggestions as radical as local referendums for overspending councils.

In her interview, Mrs Thatcher rebutted accusations that charge capping reduced local accountability, saying there was still an "enormous gap" between capped councils and more economical authorities.

She added: "We are criticised in some respects for not having bigger powers to charge cap because people say 'look don't let Labour have this big spending of other people's money'."

She said the Government had given local authorities too

much discretion in a few areas - particularly in setting charges for those owning two homes.

Mrs Thatcher accepted that much of the blame for the community charge was falling on the Government but increasingly people were realising that it was local authorities which set charge levels.

"What they are saying to me is you always knew that Labour are big spenders of other people's money... Why did you let them do it?"

● Meanwhile Neil Kinnock, the Labour opposition leader, said last year's election result was the base on which Labour would build to win the next General election.

anniversary of two of his greatest electoral triumphs.

A year ago Labour trounced the Conservatives in the European elections winning 45 seats, and 20 years ago Mr Kinnock first entered Parliament as MP for Bedwellty.

As the Labour leader met his Euro MPs at the London office at the European Parliament for one of his regular meetings with the group, he said last year's election result was the base on which Labour would build to win the next General election.

"A year ago we made huge gains in the European elections to become the biggest group in the European Parlia-

ment," he said.

"We can go on to repeat that success, and get an even better result at the next General Election."

"We took 40% of the vote in the European elections and in every election since then we have done better."

"We will continue to go from strength to strength and form the Government after the next General Election."

Secretary of the British Labour Group of MPs Alan Donnelly, Euro MP for Tyne and Wear, said the MPs were delighted with the help and liaison received from Mr Kinnock and the shadow Cabinet.

A shadow of the past that still falls across Wales

Anthony Moreton looks at plans to revitalise a deprived Welsh valley blighted by the death of coal

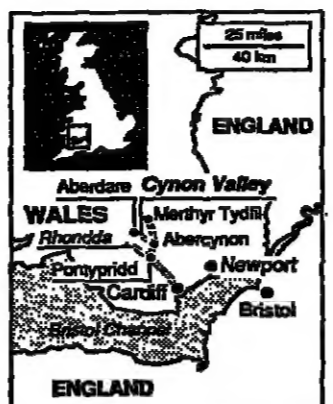
THE LEGACY of 150 years of coal mining has left the Cynon Valley as one of the most deprived parts of industrial South Wales. The unemployment rate is 13.4 per cent, just over twice the Welsh average, and income levels are among the lowest in the UK.

Now that mining has ceased, local businessmen and development agencies are trying to rejuvenate the valley. Although it is only one of a dozen valleys in South Wales whose main economic base has disappeared with the rundown of the coal industry, it has reacted more slowly to changed conditions and lagged well behind the economic uplift elsewhere.

A concentration of 18th-century housing with few 20th-century additions has resulted in the area having a higher proportion of houses without an inside lavatory or bathroom than elsewhere in Britain.

The economic situation is not altogether bleak. The area has attracted some well known companies. AB Electronics, Hitachi, Gooding-Sankin, Dunlop, Pirelli and Sheer Pride all have manufacturing operations in the area. But the incomers have never compensated fully for earlier works closures, which accounted for over 3,000 jobs in coal alone in the 1980s.

Now, under the chairmanship of Mr Ted Merrett, managing director of AB Electronics, the valley's largest employer, a forum has been set



behind a vigorous marketing programme to change the area's negative image.

"The biggest need," says WDA chairman Dr Gwyn Jones, "is to get all the agencies working together. We had done this very successfully in North Wales in Rhyl and if we can repeat it in Cynon Valley it will be a big step forward."

The catalyst behind all these moves was the arrival of Mr Tony Roberts as chief executive of Cynon Valley borough council on March 1. Mr Roberts came from the Rhondda, a neighbouring valley where similar problems had been so energetically attacked that the area is seen by many as an example of what can be done in unprepossessing circumstances.

Mr Roberts, who is the council's representative on the local Business in the Community leadership team, strongly believes that "for urban regeneration to be successful the broad brush approach is essential. If an area is to be improved jobs are certainly necessary. But it is not just a matter of jobs or finding the land on which new factories can be built. The quality of life also has to be improved and that means better housing, better healthcare facilities."

As a start towards the creation of a new image Mr Roberts commissioned a new logo, an orange sun over a green valley. A brochure outlining the valley's attractions - ample

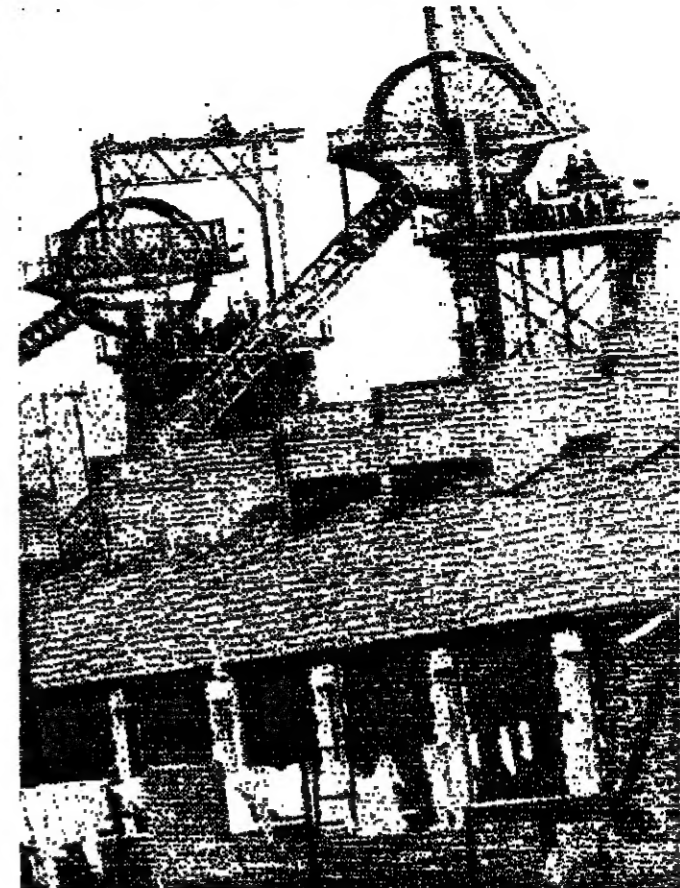
land, good supply of labour, modern factories, new housing, education and training, financial aid - was produced and aimed at the affluent but overcrowded south east of England. Some 5,500 companies in three counties received the mailshot which will be followed by one-day conferences in each county.

Mr Roberts says there have already been successes. Wimpey, Barrett, Balfour Beatty and the Cardiff-based Bailey Group are considering building private housing. The Cardiff-based Gooding Group chose Aberdare for its joint operation with the Japanese company Senken Electric to produce switchboard power supplies and is looking at the possibility of further expansion, according to Mr Rene Ferber, group managing director.

"We want to undertake a skills audit, so that we know just what we have and what we can offer to a potential incomer. This is critically important if we are to succeed," says Mr Roberts.

But there are still obstacles along the path to regeneration. Earlier this year a leading employer, Coal Products, announced the closure of its Phurnacite plant with the loss of 350 jobs.

Despite this, Mr Roberts says, "Cynon Valley faces an exciting future. There is enormous potential here. What we have to do is to convince others of that potential."



Images of the past from the Welsh valleys: Abercynon in the heart of the Cynon Valley

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MINSTER COURT
RICHARD ELLIS

UK NEWS

Review ordered in Scotland of defence groups business and organisation

Loss of US contract hits GEC Ferranti

By James Burdon and David White

GEC Ferranti Defence Systems, the defence contractor, is to shed up to 550 jobs in Edinburgh, Scotland, partly as a result of the cancellation of a contract involving the US Air Force.

The company, which employs about 6,000 people in plants in Edinburgh, said it was having to review its "business and its organisation" following the cancellation of a major overseas order and as a result of increased competition in the defence market.

Last autumn it embarked on a programme of early retirement and cuts in recruitment which involved the departure

of 400 people from the company. That review is now being continued to produce more cuts.

The company is the former Ferranti Defence Systems which was acquired by GEC earlier this year for £310m as a rescue package for Ferranti International following its disastrous association with International Signal and Control.

It is understood that the cancelled contract was with an unnamed contractor to the US Air Force and involved the supply of pods containing laser equipment used to update the airborne defence systems of US

aircraft. The contract was cancelled earlier this year because GEC Ferranti failed to meet the time schedule.

The contract, whose value is not being disclosed, was considered significant partly because it had been hoped that it would lead to other contracts involving the US Air Force.

A company spokesman said that the aim was to create a leaner company better able to compete in the shrinking defence market.

"Defence companies are getting hungrier and we hope that by doing this now we will be more successful in the future," he said. The review involved

the way the company worked and its production systems as well as manpower reductions.

GEC Ferranti recently won the order to supply the EPR 30 radar system to the European Fighter Aircraft project. It believes that this contract, potentially worth between £10m and £20m, will secure the jobs of about 2,000 people into the next century.

However it is far from certain whether the European Fighter Aircraft will go ahead on the scale originally envisaged. Considerable opposition to the project remains in West German political circles.

Parliament told an extra £600m must be cut from £21bn planned spending

Inflation hits UK defence budget

By Michael Cassell, Political Correspondent

THE Ministry of Defence is being forced to secure spending cuts of more than £500m this year because of the impact of inflation on its £21bn annual budget, Mr Tom King, the Defence Secretary, revealed yesterday.

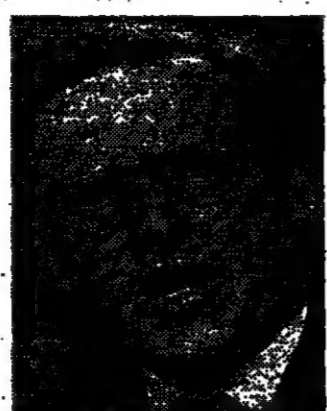
The decision means that, on top of extensive cost savings already being pursued, the government is scaling down plans to order more 50 Tornado strike and fighter aircraft.

The Royal Air Force, in a final order, had been due to take another 33 of the £200m aircraft, built by British Aerospace in co-operation with West Germany and Italy. A number of aircraft are expected to be cancelled, while the purchase of others could be delayed.

The decision is expected to have a significant impact on the BAE factory at Warton, Lancashire, with possible job losses. BAE supplies about 15 per cent of the aircraft's value and assembles the UK version.

In a move not directly connected with the longer-term review of defence requirements now underway within the government, Mr King told the Commons that the MoD had to achieve spending cuts this year of over three per cent in real terms, the largest for many years.

With defence costs rising by about eight per cent, against



Defence team: Mr Tom King and Mr Alan Clark

the five per cent allowed when the MoD budget was fixed in 1989, the ministry was already under orders to cut spending by £550m this year.

The present, temporary freeze on all defence procurement is likely to be lifted at the end of this month, although all future procurement will be scrutinised more closely than ever.

The MoD did disclose yesterday, however, that it is to take the next steps towards production of the Rolls Royce-powered Westland EH101 anti-submarine helicopter for the Royal Navy. A contract for initial production should be placed

next year.

Mr King also denied reports of a policy rift with Mr Alan Clark, the Minister for Defence Procurement, over the scope for reducing British defences in response to events in eastern Europe.

He said opponents were attempting to "drive a wedge" between the two ministers but that both of them felt "singularly unwedged" about the speculation.

retain its independent nuclear deterrent, including Polaris, Trident and associated frigates, submarines and minesweepers.

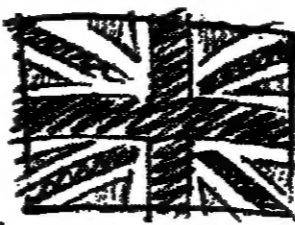
A consultation paper setting out the direction of the MoD's thinking on the defence review is expected to be circulated among ministers before the end of next month. Ministers expect to have agreed their approach by the end of the year.

Mr King also underlined the need for adequate forces to meet commitments outside Europe. These included not only the Falkland Islands, Cyprus, Gibraltar, Belize, Hong Kong and Brunei, but a capacity to respond appropriately "where circumstance demand".

Accepting that there was likely to be scope for changes and redeployment in Europe, he confirmed that the future of the four divisions in the British Army of the Rhine (BAOR) and RAF contingents in Germany were being examined.

In what Mr Martin O'Neill, the Labour opposition's shadow defence spokesman, interpreted as a hint of cuts in the existing regimental system in the Army Mr King said "It is better we have reduced numbers of front-line units, reflecting changed commitments and risk of war, which are properly manned than to try to do too much".

BRITAIN IN BRIEF



M and S chief gets big pay rise

Lord Rayner, chairman of Marks and Spencer, the retailer, received a 46 per cent pay rise in the last financial year, taking his remuneration from £454,401 to £663,961, according to the group's accounts.

The group awarded its shop staff pay rises of up to 26 per cent, in March, but this was to cover a three-year period. Warehouse staff were not given an increase.

Lord Rayner's salary is still well below those of some leading industrialists, such as Lord Hanson, who received over £1m a year, and Sir Ralph Halpern, chairman of Bursim, the retailer, who received £898,000 last year.

Airport joint venture

John Laing, the British construction company, has formed a joint venture with Lockheed the US aerospace group to explore opportunities for airport development around the world.

The two companies are already working together on the new Eurohub terminal at Birmingham International airport in the UK. The joint venture plans will include the US, said Laing.

Irish extradition controversy

Another row concerning the Irish Republic's extradition procedures appeared to be brewing over the case of Donna Maguire, the woman arrested by Belgian police at the weekend suspected of being part of an IRA unit operating on the Continent. West Germany said that a

request it had made last year to the Irish authorities for Ms Maguire's extradition had been turned down. Ms Maguire is wanted in connection with at least two IRA attacks in West Germany.

The Irish government gave no reason for its decision to turn down the German extradition request saying had been dealt with according to "appropriate procedures."

Backtracking on TV bill

The Government bowed again to critics of its broadcasting bill and announced that the new Independent Television Commission is to have the power to impose a two year moratorium on takeovers of commercial television companies and insist that there should be a national network.

Mr David Mellor, the Home Office minister responsible for broadcasting, said the Government planned to give the ITC the body that will replace the Independent Broadcasting Authority later this year, the power to ban takeovers of Channel 3 and Channel 5 companies from the moment the licence is awarded until one year after the start of broadcasting.

CBI attacks government

Mr John Banham, director general of the Confederation of British Industry, launched a blistering attack on Britain's "apparent allergy" to strategic thinking on transport policy.

He said lack of planning and investment meant the UK was entering the 21st century with the worst transport infrastructure in Northern Europe, and was in danger of being left on the sidelines with the advent of the single European market in 1992.

Mr Banham was speaking in the wake of the Government's decision last week to throw out the latest proposals for a high-speed railway line between London and Channel Tunnel.

Insurance aims for Europe

Lloyd's of London, the insurance market, and Sun Alliance, the largest UK composite insurer, are to

establish a joint venture to offer insurance cover to medium and large insurance risks in Europe.

The initiative, which will offer insurance protection of up to £145m for a risk at a single location, aims to take advantage of the European Community freedom of services directive which comes into force from July 1, 1990.

The directive allows foreign companies to compete in each others' domestic market for medium and large scale commercial risk previously insured through national insurance companies.

Police blamed for violence

Supporters of individuals involved in London's anti-police tax demonstration in March claimed to have amassed evidence that police brutality and disorganisation was the main cause of the violence.

The Trafalgar Square Demonstrators' Campaign claimed that police overreaction in the early stages of the demonstration led to "brutal violence" by police officers against demonstrators and a "clear break down in the chain of command."

The Metropolitan Police said its own investigation into the conduct of its officers was expected to be completed by August.

Post Office to increase prices

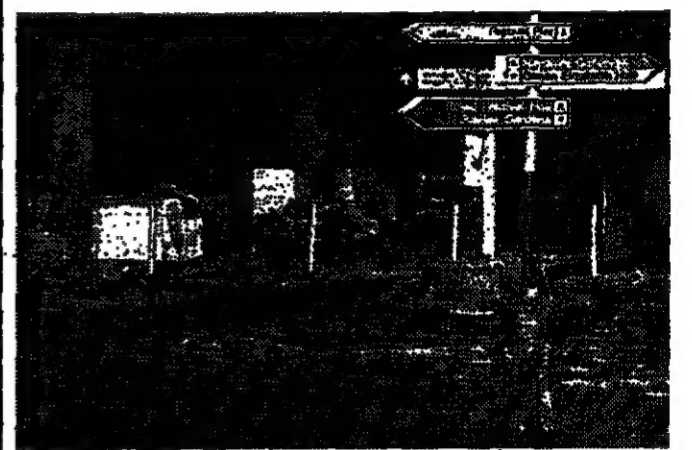
The Post Office is planning to increase postage prices by 2p on September 17. If assent is given by POUNC, a statutory body which monitors matters concerning the Post Office, the price of a first class letter would be 22p and second class 17p. The proposals also include price increases for heavier items and international mail.

The Post Office said that despite the proposed increases, the UK postal service was among the cheapest in Europe. It said the additional revenue would be used to finance its £1.8bn investment programme.

Sketchley posts £2m loss

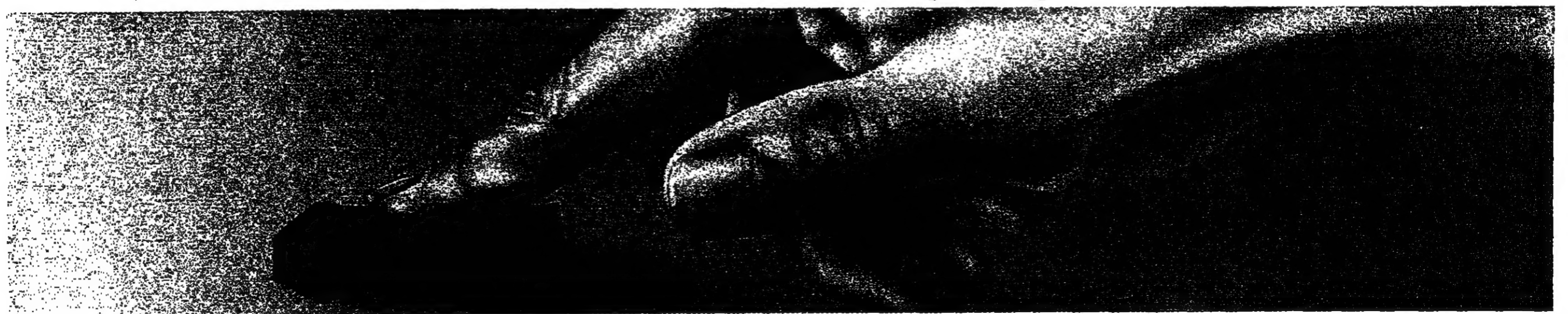
Sketchley, the dry cleaning and vending group which earlier this year evaded two takeover attempts, yesterday reported annual pre-tax losses of £2m and a deeply discounted £20.6m rights issue.

The results, which the company described as "disastrous," compared with a 58m profit forecast which Sketchley made in March. Sketchley share prices dropped 20p to 185p, giving the company a market capitalisation of £58m.



A multi-million Government housing plan aimed at clearing the streets of London of young people sleeping rough came under fire from voluntary organisations and local authorities as insufficient. Mr Michael Spicer, the Housing Minister will announce a crash programme of emergency shelters offering basic facilities to homeless people, particularly those encamped in "cardboard city" around Waterloo. The housing charity, Shelter, said that the measures appeared to involve "wasting short-term measures with no long-term solutions for what is a fundamental national crisis."

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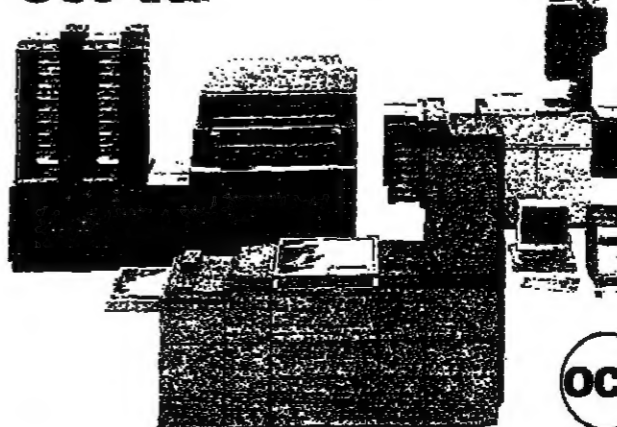
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FT LAW REPORTS

Cargo owners lose indemnity claim

FANTI; PADRE ISLAND
House of Lords (Lord Keith of
Kinkel, Lord Brandon of
Oakbrook, Lord Ackner, Lord
Goff of Chieveley, Lord
Jauncey of Tullichettle):
June 14 1990

A "PAY to be paid" clause in a P&I club contract imposes a condition precedent on a member shipowner to satisfy its liabilities on a cargo claim before it can acquire a right to indemnity from the club; and where the shipowner is wound up so that its rights against the club are statutorily transferred to the cargo owners, they cannot claim direct indemnity if, because of the shipowner's failure to discharge its liabilities, no right to indemnity ever came into existence.

The House of Lords so held when allowing appeals by two protection and indemnity (P&I) clubs, Newcastle Protection and Indemnity Association and West of England Shipowners Mutual Insurance Association (London) Ltd, from Court of Appeal decisions that they were liable to indemnify cargo owners, Firma C-Trade SA and Socony Mobil Oil Inc, for loss of cargoes carried on Fanti and Padre Island, ships owned and insured by P&I club members prior to their winding up.

Section 1(1) of the Third Parties (Rights against Insurers) Act 1930 provides: "Where... a [company]... is insured against liabilities to third parties... (b)... in the event of a winding-up order being made... if... liability... is incurred by the insured [its] rights against the insurer... shall... be transferred... to the third party to whom the liability was so incurred."

Section 1(3): "In so far as any contract... in respect of liability of the insured to third parties purports... whether directly or indirectly... to avoid the contract or to alter the rights of the parties thereunder upon [the winding up]... the contract shall be of no effect."

Section 1(4): "Upon a transfer... the insurer shall... be under the same liability to the third party as he would have been under to the insured..."

LORD BRANDON said that Fanti and Padre Island were

entered in the P&I clubs by their owners. The clubs' rules provided that members should be indemnified against cargo claims which they became liable to pay "and shall in fact have paid".

Cargo claims were asserted against the shipowners. Judgments were obtained against them but not satisfied. Both shipowners were subsequently ordered to be wound up.

The cargo owners instituted arbitration proceedings against the clubs claiming indemnity under the Third Parties (Rights against Insurers) Act 1930.

In *Fanti* the umpire awarded in favour of the club. Mr Justice Staughton allowed the cargo owner's appeal [1987] 2 Lloyd's Rep 299. In *Padre Island* the arbitrator awarded in favour of the club. Mr Justice Saville dismissed the cargo owners' appeal [1987] 2 Lloyd's Rep 535.

There was direct conflict between the two judgments. The Court of Appeal heard both appeals together [1989] 1 Lloyd's Rep 239. The club's appeal against Mr Justice Staughton's decision was dismissed. The cargo owner's appeal against Mr Justice Saville's decision was allowed.

Both clubs now appealed. The first question was what rights did the shipowners have against the clubs immediately before the winding up orders?

On the ordinary and natural construction of the "pay to be paid" provisions in the club rules, payment by members to third parties was a condition precedent to payment by the clubs to members.

In the Court of Appeal it was argued for cargo owners that under equitable principles members were entitled to be indemnified as soon as the liabilities had been established, without any need to discharge them first.

Before the Supreme Court of Judicature Acts 1873 and 1875, at law the party to be indemnified under an ordinary indemnity contract had to discharge the liability himself first and then sue the indemnifier. In equity the indemnifier could be ordered to pay directly to the third party. Since the passing of those Acts the equitable remedy had prevailed over the remedy at law.

It was difficult to see how equity could disregard the express "pay to be paid" provisions in the clubs' rules. No authorities were cited which

supported the contention. It was rightly rejected by the Court of Appeal.

The answer to the first question was that immediately before the shipowners were ordered to be wound up, they only had contingent rights against the clubs in respect of their liabilities to the cargo owners. The rights were contingent in that it was a condition precedent to indemnity that the liabilities should first have been discharged by the shipowners themselves.

The second question was whether the "pay to be paid" provisions purported, directly or indirectly, to avoid the contracts between members and clubs or to alter the parties' rights, on a winding up order being made, so as to render the provisions of no effect under section 1(3) of the 1930 Act.

The cargo owners contended that section 1(3) did render the "pay to be paid" provisions of no effect.

There were substantial difficulties in the way of that contention. The "pay to be paid" provisions did not apply only on the happening of a specified event such as a winding up order. They applied equally before and after such an event.

It was true that on winding up the member was likely to be prevented from discharging liability to a third party and so be unable to obtain indemnity. That situation did not, however, result directly or indirectly from alteration of rights under the contract of insurance.

It resulted from the member's inability, by reason of insolvency, to exercise those rights.

Mr Justice Saville and the Court of Appeal rightly rejected the cargo owners' argument based on section 1(3).

The answer to the second question was that the "pay to be paid" provisions did not purport directly or indirectly to avoid the P&I contracts or alter the parties' rights upon the shipowners being ordered to be wound up.

The third question was what rights against the clubs were transferred from members to third parties upon the members' winding up?

There were two views. The first, taken by Mr Justice Staughton and the Court of Appeal, was that rights to indemnity were transferred to third parties, subject to condition precedent that they first paid themselves the amounts

of the members' liabilities to them; that the condition precedent was impossible to satisfy so that it became ineffective or inapplicable, because a person could not pay himself; and that as a result the rights transferred were accrued rights to indemnity.

The second view, taken by Mr Justice Saville, was that the members had no accrued rights to indemnity because they had not satisfied the condition precedent; better or larger rights than those previously possessed by the members could not be transferred to third parties; therefore, no accrued rights to indemnity were transferred.

The second view was preferred.

It was clear from the express terms of the 1930 Act that the legislature never intended (except in section 1(3) which did not apply to "pay to be paid" provisions) to put a third party in a better position as against an insurer than that of the insured himself.

The effect of section 1(1) and 1(4) was that in a case where the insurer would have had a good defence to a claim by the insured before the statutory transfer of his rights to the third party, the insurer would have the same good defence to a claim made by the third party after transfer.

It was not in doubt that the clubs would have had good defences to indemnity claims by the shipowners before they were ordered to be wound up, on the ground that the condition precedent had not been satisfied.

It must follow that the clubs had the same good defences to indemnity claims made by the cargo owners after the shipowners were ordered to be wound up.

The club's appeals should be allowed in both cases.

Their Lordships agreed. Lord Goff gave a concurring judgment.

For *Newcastle*: Richard Aikens QC and Jonathan Hirst (Ince & Co)

For *Firma C-Trade*: Anthony Clarke QC and Nicholas Hamblen (Clyde & Co)

For *West of England*: Stewart Boyd QC and Graham Dunning (Holman Fenwick & Wilton)

For *Socony*: Jonathan Sumption QC and Andrew Popplewell (Allen & Overy)

Rachel Davies

Barrister

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John J. ...

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*The air vibrant with nature's melodies.
The sun, a pool of dazzling pearls
dancing upon the waves.
A gentle, cooling breeze combs your hair.
The world suffused with joy and well-being.
An unbroken chain of never-ending days
overflowing with sparkling eyes and laughter.
The champagne season of the senses.*

VENICE

*Art, cafés, gondolas:
Labyrinths of enchanted lanes
and byways. A magical
dream landscape raised by nature
and imagination in harmony.
Your unique light unveils
the subtle counterpoint of opposites.
The generous unity of untrammelled
invention. And, in each fine
nuance and resonance embroidered
with an infinity of delicate hues,
we perceive your grandeur.
Broad vistas before us.
Open undreamed perspectives
and horizons.*



THE LIDO

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Host and inspiration to Mozart,
Wagner, Hemingway and
Thomas Mann. A rare pinnacle
of exquisite elegance.
A sanctuary for connoisseurs of
refinement and luxury.
The burnished sand and murmuring
sea of the lagoon, a constant
source of languid reverie.
With only the enticements of the
golf course, tennis court and
azure blue water to distract.*

HOTEL EXCELSIOR

*An ambience of exceptional style and
elegance amid the exotic charm of
Moorish architecture. The splendour and
sumptuousness of a true Grand Hotel, nexus
and meeting place of the international élite.
Superb cuisine and peerless service.
Pool and private beach.*

HOTEL DES BAINS

*An exclusive and prestigious hotel
permeated with the spirit and fascination
of Art Nouveau and spacious elegance.
Nestling in a magnificent private park
resplendent with proud, ancient trees.
An idyll of tranquility, candlelight
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*Both establishments offer an exhaustive range
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Each has its own special motor-launch service, so that
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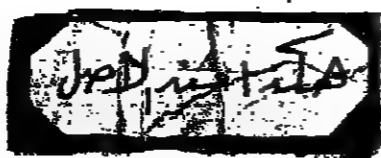


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business that encompasses London, New York, Tokyo, Hong
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change is exactly reflected in the way Bankers Trust goes about
its clients' business.

Bankers Trust Company

Because today isn't yesterday.

Core 'chore' businesses lift BET 19% to £322m

61 8ET

Inflation doubts upset share prices

broking." News of a possible bid brought a sharp rise in Speyhawk, the property group, but the shares were thinly-traded.

A \$21.7m rights issue from Sketchley has been foreshadowed in the weekend press and the shares shed 10 per cent.

There were some weak sectors, notably the UK clearing banks, where Midland suffered further profits downgradings by a leading UK securities analyst. The same analyst had downgraded National Westminster Bank at the end of last week. UK bank shares were additionally unsettled by doubts over involvement in property deals in the US.

[illegible]

FT-A All-Share Index

1200
1150
1100
1050

Equity Shares Traded

Turnover by volume (million)

Excluding:
Intra-market business & Overseas turnover

600

[illegible]

They "stood on the brink of a rerun of the 1986 gas glut-fiasco," which took oil prices below the \$10 a barrel mark.

British Gas held up well, closing only 1% easier at 218p, after an investment seminar given by the company at Hoare Gowers, the company's stockbroker.

The Hoare energy team said Gas had delivered a "positive statement on its exploration and production business and the potential for the global gas industry. Hoare is hosting a presentation for Scottish investors on Thursday."

[illegible]

exposure to the Donald Trump empire in the US brought further pressure on the bank's

training centre, Mr Keith Nielsen, site manager of the major projects division, and **Mr A. J. G. Gifford**, craft training manager, have all joined the board.

■ **WOOLWICH (EUROPE)** - a Woolwich Building Society subsidiary has appointed **Mr A. J. G. Gifford** as managing director of its Italian company Woolwich SpA, based in Milan.

■ **CONDOR PROJECTS**, the design and build contracting division of Condor Group, has appointed **Mr Bill Hogg** as its finance director. He was previously a divisional finance director with British Aerospace and latterly acting vice president (finance) of BAE Inc.

■ **Mr Stephen J. Deakin** has left NICO to join the board of **OVERBURY & SONS**, based in London.

[illegible]

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11.54	11.49	50	50	50
11.52	11.04	50	50	50
11.52	11.04	50	50	50
10.61	10.95	128	128	15
10.41	10.91			
10.62	10.67			
9.77	10.74			
10.49	10.63			
10.49	10.63			

AMERICANS

[illegible]

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Gold Corp 79	1310	-	-	-	

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OTHER UK UNIT TRUSTS

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[illegible]

Meridian Funds	\$1.07	1	...
Money Market	\$1.07	1	...

[illegible]

Japan Photo June 14	\$211.11	22.14		
Pacific Photo June 14	\$11.88	12.73		

Windsor Fund	\$1.33				
Windsor Fund II	\$1.33				
Windsor Fund III	\$1.33				
Windsor Fund IV	\$1.33				
Windsor Fund V	\$1.33				
Windsor Fund VI	\$1.33				
Windsor Fund VII	\$1.33				
Windsor Fund VIII	\$1.33				
Windsor Fund IX	\$1.33				
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Investment	100,75	25	30	40	+0.10	-	Commission, Jersey, Commercial Relations Department

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allow for all buying transactions. Prices of certain direct insurance (linked plan) subject to capital gains tax on sales. In Distribution view of UK taxes, a Periodic premium insurance plans. A Single premium insurance, a Offer price includes all expenses except agent's commission. Premiums may's accrue, to Surrender profit, if surrendered. Value before Jersey tax deduction, if Only small sales to charitable bodies. b Yield column shows annualized rates of NAV increase, not dividend.

(*) Funds not SIB recognized. The regulatory authorities for these funds are: Germany: Financial Services Commission; Isle of Man: Financial Supervisory Commission; Jersey: Commercial Affairs Department; Luxembourg: Institut Monétaire Luxembourg.

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Prices are in pence unless otherwise indicated and those designated S with no pence refer to U.S. dollars. Yields are all for 30 day periods, based on the most recent available information. All prices are subject to capital gains tax on sales in Distribution Year of UK taxes, in a Periodic Payment plan, the UK tax liability is borne by the investor. A different price includes all applicable agent's commission.

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A FINANCIAL TIMES SERIES: Part 7

EUROPEAN FINANCE AND INVESTMENT

WEST GERMANY



Changes are required in West Germany if the best is to be made of opportunities facing a country heading for reunification at a time of economic and political integration in western Europe. Many business practices are not progressive enough to cash in on the situation, Katharine Campbell warns

A break with the past

A REUNITED Germany faces profound change as it stands at a crossroads between the collapse of communism in the East and growing economic and political integration in western Europe. One pressing question, which seems to be insufficiently tackled in Frankfurt banking circles, is how well equipped West Germany is to act as the financial powerhouse to stoke the liberalisation of eastern Europe? In pure economic terms, there is little question that the robust West German economy is well placed to bank roll the developments in eastern Europe, and particularly in East Germany. The gross national product in 1989 reached DM2,260bn, while the total wealth of West German households at the end of the year stood at DM2,505bn - about DM45,000 for every man, woman and child. Bonn has projected 4 per cent growth in the economy this year, included a 1 per cent dividend from East German supply and demand factors, and 3.5 per cent in 1991. Inflation is well below 3 per cent, and the D-Mark is generally strong. But the process of adjustment, as the dilapidated East German economy limps along the treacherous road towards integration with the west, will be fraught with dangers. This process is looming large with the start of monetary and social union from the beginning of July. Estimates of the price of

rebuilding East Germany have become increasingly meaningless large and the steep rise in government bond yields demonstrates that development capital will not come cheap. Modern and efficient capital markets, to smoothly transfer funds from official and private sources, will be crucial in inspiring international confidence. In this field, Germany still lags well behind other leading financial centres. For example, even after the fundamental revaluation that has occurred in the stock market since the Berlin Wall was breached last November, its overall capitalisation still only represents 5 per cent of world total. This seems absurdly out of kilter with the nation's industrial might. Price movements in the government bond market are

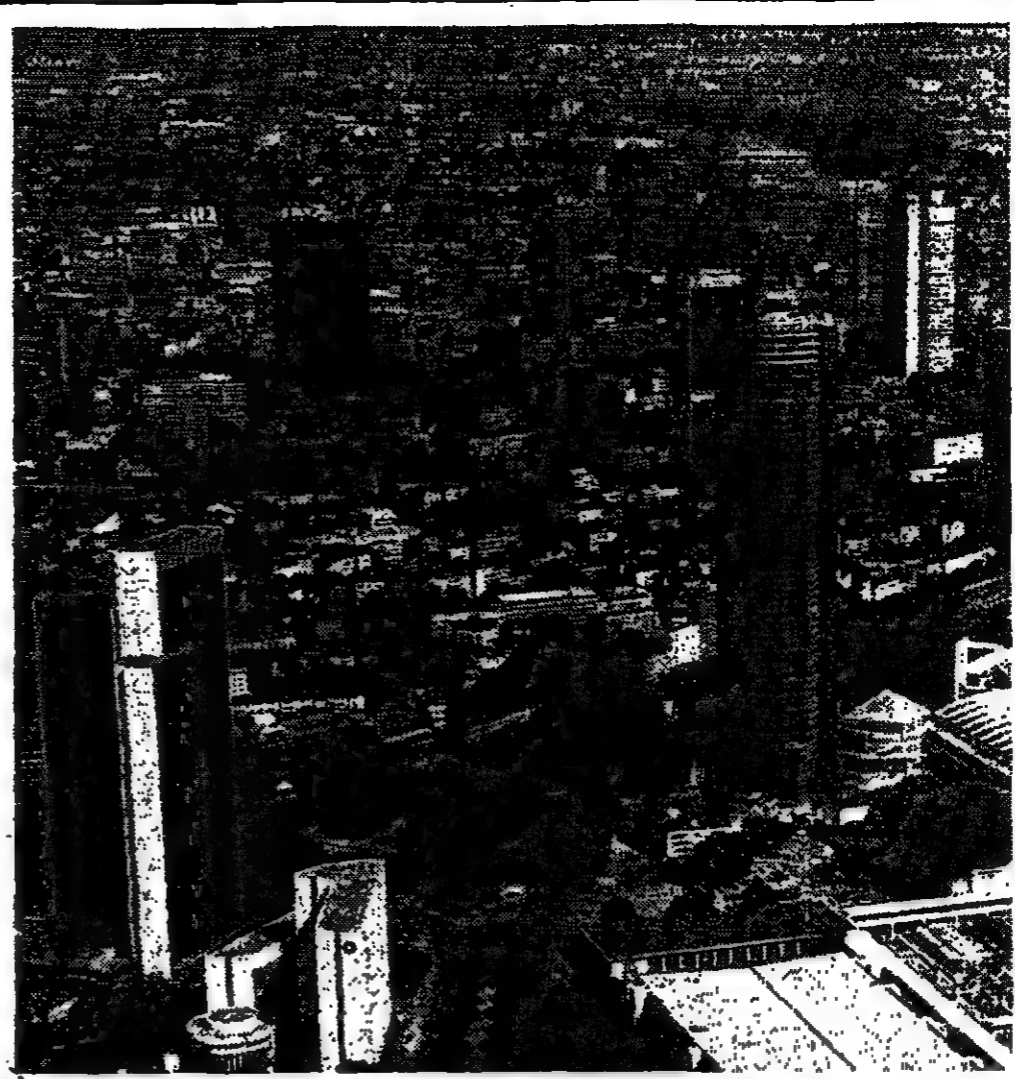
chological uncertainties could also serve to reinforce old defensive attitudes in the next few years, slowing up the process of liberalisation. Long before the political upheavals of recent months, Mr Karl Otto Pöhl, president of the Bundesbank, made an important speech which characterised the central bank's increasingly proactive thinking about the promotion of West German financial markets. "From the discussions about what must be changed in (the Federal Republic)... I sometimes get the impression with us the question is phrased the opposite way around: How can the status quo be maintained, at any price?" he said. Institutional changes seem to be done half-heartedly, and are quite often not welcomed. The steep rise in the Government's projected borrowing programme will necessitate

and the pressures of conformity and tradition give some institutions difficulty with their Europe-wide ambitions in relation to their domestic position. Developments in East Germany, at least in the next few years, are likely to reinforce existing structures. One small but pertinent example. Bankers are hoping that the abolition of turnover tax at the beginning of next year will be the cue, finally, for the development of a short-term money market, curiously absent to date. Yet one important prerequisite is that minimum reserve requirements should be lifted on term deposits. While the Bundesbank is acutely aware that the reserve requirements represent a direct subsidy to offshore centres, notably Luxembourg, any relaxation would be regarded as giving false signals to the market. At a time when the Bundesbank is fighting to establish its authority over the East German economy, and is also anxiously watching the increasing use of the D-Mark throughout eastern Europe, it is highly unlikely to give any ground on one of its most cherished tools of monetary policy. Psychologically, the next few years are unlikely to be a period of great experimentation. Germany, for instance, still largely lacks an equity culture, and a period of potentially disruptive change is not a very promising breeding ground. It has been foreign, not domestic investors who have largely been responsible for more than doubling stock exchange turnover this year compared with last. Indeed, German investors, unsettled by the mini crash last October, were net sellers in the final quarter of 1989, just as the market was entering a

The need for more open thinking and the pressures of conformity give some institutions difficulty with their European-wide ambitions

watched, not in Frankfurt, but in the London futures markets. And in spite of an increasingly international veneer, some business practices in Frankfurt remain surprisingly provincial. There is still no insider trading regulation for instance and "Chinese walls" between proprietary and client trading are lacking in most bank dealing rooms. The DG bank fiasco, which revealed a special case of internal management chaos, also demonstrated that certain rules, observed as a matter of course elsewhere, such as taping dealers' phone conversations, are far from automatic. The host of economic and psy-

alterations to antiquated issuing procedures. Experiments with a part auction system are already under way. But resistance to bypassing the highly profitable, but not always efficient bond consortium, is formidable. Again, the internationalisation of certain markets is sometimes frowned on as a loss of control. The London futures market has made cash government bond trading a little too lively for some tastes. "We're losing interest in the bond future," a Hamburg central banker says, "because we feel we cannot control the market any more." The tensions between the need for more open thinking



Commercial might: Europe's tallest office building, the Messeturm, with 55 storeys at 254m, is the latest addition to the banking district in Frankfurt, West Germany's financial centre

phase of record growth. Almost 25 per cent of private household savings are still lodged in traditional low interest savings accounts; only 6.6 per cent are invested in shares. East Germans will not be encouraged to invest their meagre savings in the stock market; nor are a host of East German firms, struggling for survival in the rigours of a market economy going to significantly swell the ranks of listed stocks. Geographically, the West German financial centre is likely to stay in Frankfurt,

rather than move to Berlin as the capital of a reunified Germany. The infrastructure is in place. It would take years to recreate in cramped Berlin. Political sensibilities generally rule out locating the Eurofed as a future nerve centre of EC finance in Berlin. The West Germans have not only firmly set their sights on luring the future European central bank to Frankfurt, they have even earmarked a building for it. The former home of the pre-1945 chemical conglomerate IG Farben in north-west Frank-

furt may soon be abandoned by 50,000 American army officers. The rambling old building is capable of accommodating a large number of central bankers. This progression has a symbolic relation to the historic political and economic changes engulfing Europe in general, and particularly Germany. But for any of it to benefit Germany, attitudes will have to shift. If not, the West German financial market place will fail to make the most of the opportunities which it so fortuitously faces.

IN THIS SURVEY



Mr Theo Weigel, West German Finance Minister. Advocating uniformity in the insurance industry

Monetary capacity for reunification; the role of Bonn's development bank; key facts

East German banking; equities look for a boost

Commercial bank prospects; Frankfurt as a business centre; derivatives trading

German insurers slow to accept change

The Bundesbank and monetary reform; moves to expand bourse activity



Mr Karl Otto Pöhl, Bundesbank president; central bank faces biggest challenge since its 1967 inception

Editorial production: Tania Shawlin

While you may still be in the process of getting to know Germany



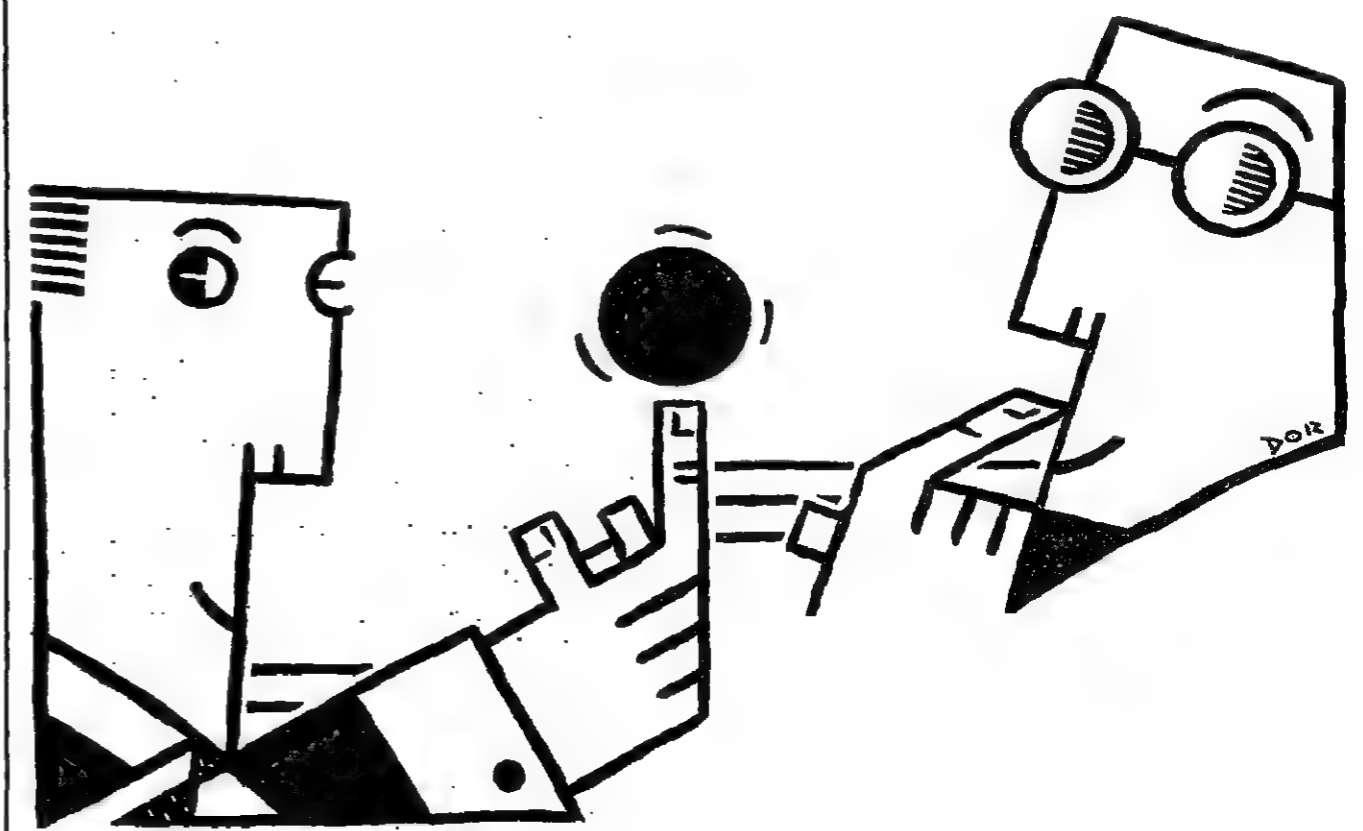
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State banking: East Germans are accustomed to queuing to use their savings accounts

West German banks are rushing into East Germany

Rebuilding a sector

THE WEST German banks are jockeying for positions with the reconstruction of the East German banking system.

A sign of the times is the move by Bundesbank, the West German central bank, into the headquarters of the pre-1945 Reichsbank in East Berlin.

The old communist state monopoly is crumbling and its constituent parts are being eagerly absorbed by western banks. So the foundations are being laid for an extension of the West German system on the other side of the border.

Banking in communist East Germany was a very simple matter. The country's savings were collected, largely through the network of 186 savings banks which paid a virtually uniform rate of 3.25 per cent. Credits were then distributed, almost exclusively to industry, via the Staatsbank (state bank), at a cost of between 4-5 per cent.

Almost every bank in West Germany wants to be represented across the border. For starters, the market promises about 16m new retail accounts: an additional 25 per cent of the domestic market. Leipzig alone is processing 100 or more applications for banking licences.

Several big banks say they are aiming for a market share generally equivalent to their strength at home, but it is clear their expectations are higher.

Indeed, the fight for customers has already begun with a vengeance.

Both Dresdner Bank and Commerzbank, West Germany's second and third largest banks, have announced they will run their customers' current accounts free of charge for the first year. The country's largest bank, the Deutsche Bank, has not yet made any announcements in this area. An outstanding danger is that this sort of competition on the loan side could lead to sizeable losses in a place where credit assessment will inevitably be rudimentary, to say the least, for the time being.

As the big banks jockey for position, various strategies have been considered.

In order to speed up establishment, the banks have shown inevitable preference to be associated with an existing institution.

As its competitors note, with an air of *déjà vu*, Deutsche Bank has managed to muscle its way in to pick off what appears to be the cream of the Deutsche Kreditbank branches - in number about 118 of the 170.

Deutsche has cunningly set up a joint venture with the Kreditbank, the commercial part of the old Staatsbank, hence neatly avoiding responsibility for some DM180bn worth of corporate credits which remain, for the present, on the East German bank's balance sheet.

It has instead acquired branches in strategic locations - when office space, even of the lowest quality, is almost

impossible to come by - and staff, some of whom will have useful contacts.

Dresdner Bank is also negotiating with Kreditbank, and says it will probably take over at least 50 branches from the old network, with an emphasis on the Dresden region.

The old foreign trade bank, on the other hand, has responded to the overtures of Westdeutsche Landesbank, the largest regional public sector institution, to create the Deutsche Industrie- und Handelsbank (DIHB), a 50-50 joint venture. It will engage in export finance throughout eastern Europe, as well as corporate and local authority lending in East Germany.

WestLB, which had been starting to build its own network, will operate out of DIHB and its existing offices.

Meanwhile, Commerzbank is making the best of its independent strategy, solving the problem of lack of buildings in places by operating, at least for a while, out of large containers ("very respectable two-storey ones," according to one rather defensive official).

Its staff say in private that they are so able to avoid any taint of the old regime.

The most immediate, and certainly least enviable, task falls to the savings banks, which, with about 80 per cent of the country's savings accounts, are not equipped to deal with the mammoth task of converting 12m or so accounts from East Marks into D-Marks.

Hundreds of East Germans, well practised in queuing, are again lining up to place their applications for the prized D-Marks that will be legal tender from July 2.

West Germany's savings banks, although prevented by law from operating outside their own regions, are sending personnel and some of the basics in office equipment, both to help in the short term problem, and to provide long-term assistance to their sister institutions.

For many months, banking business in East Germany will largely be a question of "flying blind." Even basic information is not available.

For example, as Deutsche discovered that the Kreditbank does not know how many branches it has. Manifold legal uncertainties persist, most notably in the area of property rights. The Staatsbank in East Berlin, for instance, is not sure who owns the building inhabited by Dresdner before the war.

In the midst of such uncertainty, credit institutions will be under pressure to provide liquidity for companies for which there may be no balance sheet. The worth of their assets as security or otherwise will be unknown, and so their prospects in a market economy will be subject to guess-work.

It will be an uncomfortable market in which to be battling for market share.

Katherine Campbell

Richard Waters on the share market's struggle to gain ground

Foreigners force changes

IN SPITE of the leap in turnover in German equities last year, the country has not turned into a nation of shareholders overnight.

Last year, private sector savings topped DM150bn, but only about DM10bn, either directly or indirectly, reached the equity market.

Both the demand for and supply of equities remain slight relative to the size of the German economy. Institutional interest is meagre, and shows little sign of picking up.

Insurance companies, a mainstay of the equity market in other countries, have just 5 per cent of their assets in shares. They are allowed a 10 per cent ceiling.

Company pension funds, already reduced in importance due to the high level of benefits under the social security system, remain locked in companies' balance sheets. Many say this pension fund money, reckoned at DM200-300bn, could transform the equity market. But little change is likely without alteration of the tax system.

With high rates of corporate tax, and an accelerated writing-down allowance for capital investment, it makes sense for companies to retain money rather than invest it in the capital markets.

That may look inefficient to an Anglo-Saxon mind, which is trained to believe that capital should freely flow to wherever it can be used most efficiently.

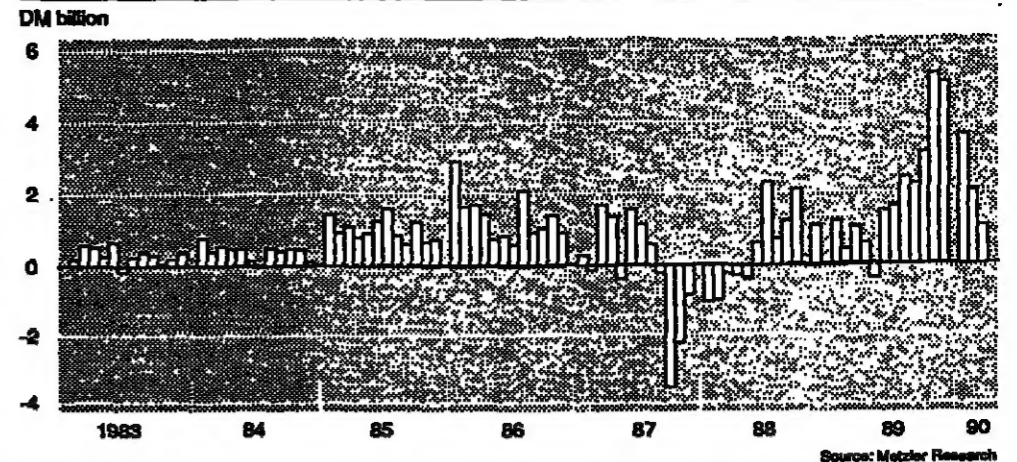
Many Germans, however, point to the successful investment record of their companies - DM400bn last year, 80 per cent of it funded internally.

This financing pattern, established after the Second World War, when almost the only funds available to a company were those it generated itself, shows no signs of being broken. It is supplemented by an older and equally entrenched pattern - that of the long-term financing provided by German banks.

Without local institutional money, the equity market is frequently driven by foreign institutions - as happened in the strong bull run which began last autumn.

Foreign institutions invested a DM25bn in 1989: two thirds came in the last three months of the year due to hopes of German unification.

Net foreign investment in German shares



Source: Metzler Research

German shareowners, in contrast, were selling to the tune of DM18bn. This was in part due to loss of confidence over last October's mini-crash, in which the German stock market fared worse than most.

But the reliance on foreign money makes Germans nervous. Foreigners were net sellers of German shares in the 1987 stock market crash, proving that this money can move out as quickly as it moves in.

German intermediaries are looking to private investors, hoping for an increase in the 3-5 per cent of personal wealth traditionally held in equities.

Many point to the wave of inheritance that is washing across the country. As the post-war generation passes on, hard-earned, cautiously invested money is being left to a new generation.

These people, according to the popular view, will take greater risks with their money than their parents. The equity and derivatives market could benefit as a result.

Yet there is little evidence to date to support this widely-pounded theory. According to Mr Ulrich Baum, economist at Commerzbank: "It's more an expectation than a reality at the moment."

Two factors could boost demand for German shares.

According to Ms Ute Geipel, head of investment management at Citibank in Frankfurt, mutual funds, which have little of their DM120bn invested in equities, are set to change their

investment habits as products from other EC countries become locally available.

Competition is likely to provoke the sort of performance comparisons between funds that has hardly been seen before, forcing German funds to move away from the safe but unexciting fixed income markets they tend to use.

The second boost could come at the start of next year with the end of stock exchange turnover tax. This is a quarter of a per cent each time a share is bought or sold.

While local demand for equities remains slight, the supply has yet to pick up. At the end of 1989, there were only 316 listed companies in Frankfurt, the largest of the eight exchanges. During the year, 26 companies went public - a sign of growing interest in equity finance, but hardly a rush given the pool of 400,000 traditional second-class citizens of the financial scene, should pick up momentum.

One of the most obvious restrictions on shareholders' rights has been the ceiling placed by many companies on voting rights. Deutsche Bank has declared its opposition to such restrictions - a move which Dresdner at least has supported. This may seem

ironic, given restrictions placed on Deutsche's own shareholders and Dresdner's attempts this year (they were blocked by a court) to limit any individual shareholder's votes. However, it is a sign that attitudes at the banks are at least changing.

The number of companies with such restrictions is difficult to gauge.

According to a survey by Baring Securities, it is more than half, although others put the proportion much lower.

What is clear that it would be hard to gain control of a company by hostile means, since many of those without voting rights have shareholders who control a blocking interest of more than a quarter of their shares.

Without a free market for corporate control, shareholders lack the ultimate sanction of selling to a competitive bidder. Many expect shareholder power to increase, with the concomitant rise in contest takeovers.

According to Mr Barthold von Ribbentrop, executive in charge of Deutsche Bank's investment department, it is the power of foreign institutions in the German equity market that is forcing these changes.

German financiers seem to accept that the changes are necessary if the country is to build a thriving equity market. But many doubt that such moves will reinforce the financing system in the long run.

OUR HOME MARKET

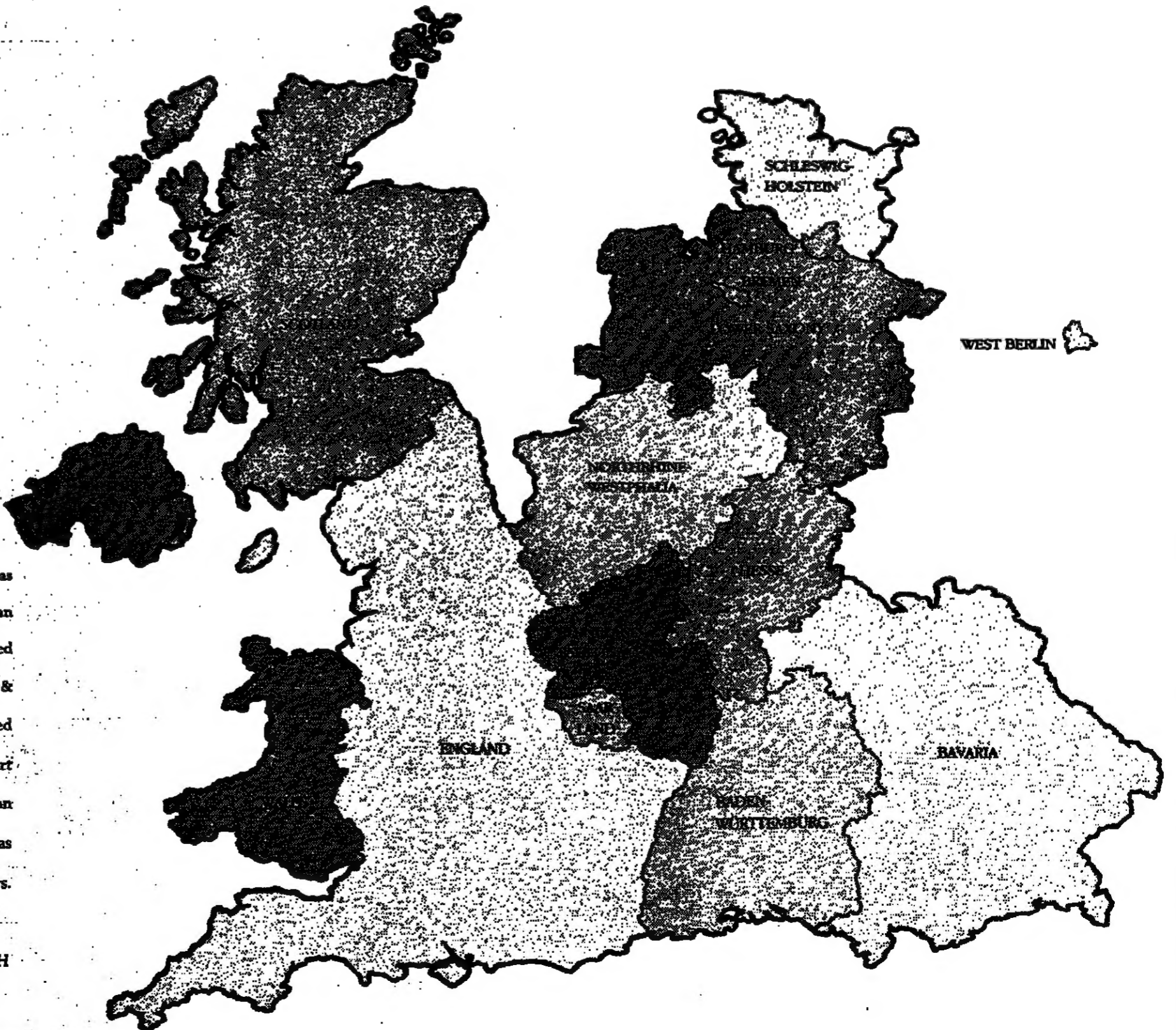
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WEST GERMANY 5

The insurance industry: a staunchly defended market

Vanguard against change

COMPARED WITH other financial services, insurance seems to be trailing in terms of progress on directives for implementation by the beginning of 1993.

German insurers and regulators, operating in Europe's biggest and most heavily-protected market, are not complaining about the delays.

Indeed, the progress that has been made has largely been accomplished in the face of fierce opposition on their part.

But it was with care that Sir Leon Brittan, EC competition commissioner, recently addressed a gathering of German insurers in Cologne on the subject of the commission's aims to extend the freedom-of-services concept in the insurance industry.

His careful phraseology underlined how unpopular he knew his message of free competition would be.

But in terms of concrete measures affecting near-term business prospects, Sir Leon's audience probably heard nothing to unduly alarm it.

The domestic firms, most notably Allianz, which derives about 40 per cent of its income from outside Germany, look set to do better out of the rest of Europe than the rest of Europe will do within Germany.

As far as commercial risk goes, the relevant directive must be adopted by member states into national law by the end of June, and Germany is likely to meet the deadline.

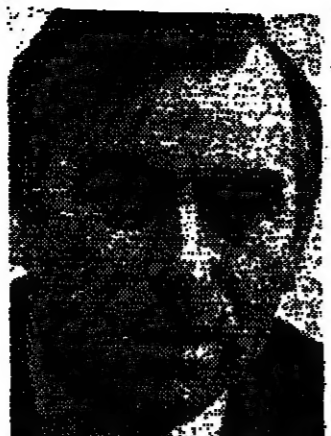
But it is changes in the fast-growing but staunchly defended life insurance market which are of most potential interest, at least to foreign players with an eye on the German savings honey pot.

The force of one directive in the field of life insurance may be considerably reduced and there is not even a draft version for a second directive yet.

The second life insurance directive, bitterly opposed by the Germans during its passage, is being held up by a technicality in the European Parliament.

Even when this is sorted out, however, the directive is not going to change business practices overnight.

Its basic thrust, the so-called "own initiative provision," is to permit the sale of foreign insurance policies to clients who specifically request them.



Theo Weigel: support for industry control

Although the number of German savers likely to know about a particular life product such as from a Scottish company for example, will not be great, many domestic insurers are distinctly mistrustful.

Some would like to totally ban brokers from selling foreign policies.

Brokers account for just a small part of the industry but are unsupervised. No

German insurers are deeply mistrustful of any moves to introduce a single European passport

qualification is required to sell public insurance policies in Germany.

In response to pressure from German ministers, however, the EC has said that it will allow member states three years to introduce their own kind of broker regulation.

The idea of applying the European passport concept to the insurance industry is also on the programme but not yet in draft form.

Already embodied in the second banking directive, this would similarly allow insurance companies to sell across borders on the strength of the licence obtained from their home regulator without the need to establish branches in each country.

While Mr Theo Weigel, the West German Finance Minister, at a meeting in March with Mr Nicholas Ridley, the British Secretary for Trade and Indus-

try, supported the basic principle of a single passport, he was clearly not speaking with the full support of the domestic insurance business.

German insurers and their regulators are deeply mistrustful of any such moves.

"Excessive regulation gets in the way of product innovation and choice," Sir Leon said in his Cologne speech.

Any foreign insurer who has tried to penetrate the German market, particularly in the life area, would heartily agree, as would an increasing number of German consumers.

While it may be difficult to quantify where customer protection leaves off and protection of the home industry sets in, other European players would be in no doubt as to which side of the fence the German supervisory authorities fall.

Rigorously standardised, every new twist to a policy has to be scrutinised by the regulators. Equally, firms with new products are expected to show their wares before competitors before their launch.

Behind the single passport is introduced, there will no doubt be acrimonious discussion between member states as to how far the writ of the host, as opposed to the home, regulator extends.

This will be crucial in determining whether foreign insurers really get a fair crack at the German market.

Meanwhile, within the domestic market, one of the most important themes continues to be Allianz, or one-stop financial shopping.

Alliances between banks and insurers continue to be struck.

Deutsche Bank, the country's largest bank which set up its own life insurance unit last September, recently announced a joint venture with Gerdag, which mainly insures industrial risk, in the field of life policies offered by companies to their staff.

While one of the prime motives cited for such partnerships has been the spectre of pan-European competition, the true rationale - given the EC changes are, at best, some distance off - has more to do with the banks' dwindling share of savings.

No-one expects this structural idea to change given the massive tax advantage con-

ferred on the life business.

No matter how logical the tie-ups, the rewards may take years to shine through.

Nor is it clear which of the various models will prove the most successful.

Deutsche says it has sold a total of 64,000 life contracts worth DM2.7bn in the first eight months of operation.

But some of its competitors, which allege that Deutsche's business has considerably fallen off after a surge in the initial months, reckon that the concept of bank staff selling life insurance as an adjunct to the raft of banking services simply will not work.

They contend the life policy will get lost among all the other products when the novelty has worn off.

Other models have been based on links between banks and insurers, aiming to blend the bank branch network with the insurance companies' armies of commission-based full and part-time sales representatives.

One of the first of these was put in place by the big insurer Aachener & Münchener when it bought a majority stake in BfG, the West German reconstruction bank, then wholly-owned by the trade unions.

BfG had, and still has, its own problems, but, after three years, A&M appears to be beginning to make the alliance work.

Allianz, West Germany's biggest insurer, has a marketing pact with Dresdner, the number two German bank.

It covers five states only because Dresdner wanted to keep its distance and so linked with three other companies to cover the rest of the country.

The venture started as a product of Allianz's pique with Deutsche when that bank announced it was setting up its own life activities, thereby abruptly ending a long-standing and close relationship.

Other banks and insurers have agreements in place, and a number of foreign insurers say they would like to find a friendly German bank to distribute their products.

This might well prove their best method of entry given the difficulties Brussels is encountering opening up the market.

Katharine Campbell

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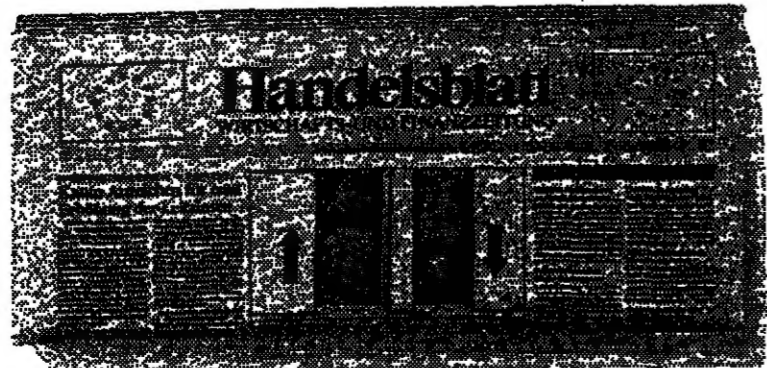
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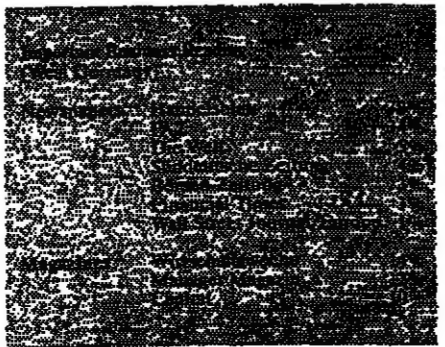
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